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NIGERIAN BANKS AND GLOBAL RANKING:

***The IFRS
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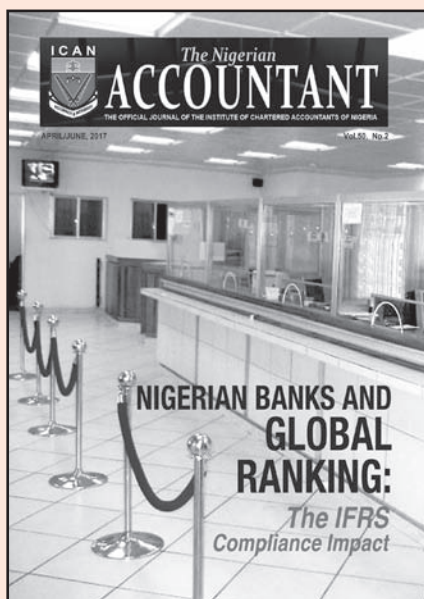
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The implementation of the International Financial Reporting Standards (IFRS) has fully taken effect in Nigeria and the next phase is the compliance level assessment roll out. Nigerian banks' compliance level with the guidelines of the scheme is towards determining the extent to which such compliance has contributed to improving the acceptability of the organisations' financial reports globally.

Our lead article, **"Nigerian Banks and Global Ranking: The IFRS Compliance Impact"** tries to assess the compliance level of Nigerian banks to the scheme and the impact of the compliance on their operations. The outcome of the analysis showed that the level of compliance of Nigerian banks to IFRS disclosure guidelines has indeed improved the acceptability of her financial reporting practices globally.

Similarly, our second article entitled **"Impact of Corporate Governance on Firms Financial Performance: A Study of Quoted Banks in Nigeria"** delves into the Impact of Corporate Governance on Firms' Financial Performance in Nigeria Quoted Banks. Its focus is to determine the Banks Financial Performance before and after the introduction of Code of Corporate Governance in Nigeria. The author tries to evaluate Board composition with a view to determining its impact on Firms financial performance.

Against the background that budgeting is one of the most popular management tools used by organisations in planning, controlling, coordinating and communicating of plans, programmes, policies and decisions, a school of thought believe that this tool is indispensable in organisational operation. Our article **"Can Enterprise Function without Budget? Delineating the Controversy"** evaluates the criticisms against budgeting in terms of its principles and dynamics of budgeting. It also seeks to delineate the controversy and to show that the budget is an indispensable tool. The article provides a rational for adaptation and variability in the use of the budget and its control mechanism to manage organisations for optimal performance.

Recently, Meningitis reared its ugly head again in Nigeria, killing hundreds of people especially in the northern part of the country. On our health page, we report the symptoms, diagnosis, warning signals of the ailment and its cure. We implore our readers to take note of these symptoms to avoid being caught unaware.

You will also read about the 2017 Annual Dinner and Awards for deserving members of the Institute and other distinguished Nigerians who have distinguished themselves in their chosen career.

Your comments on the various articles, news and other items published in this edition are welcome. Please write to: corporateaffairs@ican.org.ng or aowolabi@ican.org.ng

A Treasurer's Perspective: Trends in Risk Management

By JAMES LOCKYER

The management of risk and reward is central to successful delivery of the treasury's core function of sourcing and delivering money to finance a business, while avoiding making material mistakes.

Treasury is typically responsible for financial risk, related to, for example, foreign exchange, commodity price, interest rate, and liquidity risk. To manage financial risk effectively, treasury and the business should work in close partnership to ensure that treasury's activity in financial markets properly supports the business' aims. Consequently, treasury often has a key interaction with the professional accountants in their organisation.

Because of this important interaction and cross-reliance, it is useful to share some of the key priorities and issues the Association of Corporate Treasurers (ACT) is seeing in the financial risk space:

- Global fragmentation of bank services as **Basel III** and other financial regulation take effect. These measures are completely changing the risk and return landscape, both for funding and for successful operation of the business itself.
- Advances in technology, which may help the business (e.g. artificial intelligence, big data, blockchain), or hinder (e.g. cyber threats or changes in the competitive environment from disruptive new competitors).
- Political risk, particularly extraterritorial, that can create additional barriers, including financial.
- Threats to forego good business opportunities in an increasingly risk-averse world.

These four key issues are illustrated below.

Fragmentation Issues

Increased liquidity risk and a lack of access for businesses to finance generally:

— Basel III implementation has driven a wholesale retrenchment by the classic banks. For instance, there is almost no meaningful European or American banking presence in Sub-Saharan Africa. In the UK, numerous corporate customers are being forced to move or close bank accounts at short or zero notice, materially disrupting their business.

— The retrenchment by the classic banks from many markets has been compensated for by the emergence of new banks, such as from the Middle East, South East Asia, and China. Many of these banks are excellent institutions, well run and properly capitalised. However, companies still need to build relationships and assess banks' capability and culture prior to transacting. A number of companies are struggling to build trusted relationships in time to

meet their business needs.

— Similarly, we are seeing the rapid emergence of financial technology companies (FinTechs) and so-called "parallel" banks, offering services similar to or more attractive than banks, but in a less regulated environment and often in an original format. Again, companies need to perform rigorous assessment of the capabilities, management, and financial strength of such potential providers before transacting. In the absence of a suitable regulatory framework this can be a challenge, and arguably some novel, workable solutions are not being taken up owing to due diligence concerns rather than flaws in the offering itself.

— Basel III and associated reporting/compliance requirements may materially increase organisations' cost to hedge the classic financial risks of foreign exchange, commodity, and interest rates. Besides adding in cost of compliance, a reduction in the ability to manage financial risk effectively means that more risk has to be contained within the business — making it riskier overall, and hence increasing investors' required returns and/or decreasing the value of the business.

— The Know Your Customer (KYC) regulations are a substantial compliance burden with potentially severe penalties for non-compliance by banks. Bank fragmentation means that the KYC burden increases even further as customers are forced to use more banks. Conversely, in the post-crisis environment, corporate customers need to keep their Know Your Bank (KYB) information up to date, so they know exactly what is at risk in the event that the bank or part of it fails.

Technical Issues

• Organisations are having to respond to a global, industrially scaled and resourced cyber risk threat. The **ACT's 2016 Contemporary Treasurer Survey** emphasised the vulnerability of technology and signaled an overall trend to increase technology solutions in treasury activity, and that as businesses become more digitised, they inevitably become more at risk from cybercrime.

• Risks to the brand, such as from crowd-based campaigns on social media or ill-advised email or social network posting by staff, may affect the company's competitiveness and/or financial reputation. With so much information in the public domain, corporate communications need to be properly coordinated across the board, and the organisation's actions must always be consistent with its statements.

Artificial Intelligence (AI), big data, and blockchain: As in core accounting and business reporting, a great deal of treasury's work is potentially automatable. For instance, combining big data and

AI theoretically enables hedging to be executed exactly in line with policy. In fact, the combination could arguably be used to write the policy in the first place.

Blockchain can provide the complete audit trail for every transaction, and could simultaneously meet any external reporting requirements. Daily cash could be managed seamlessly and in real time, and funding and deposits organised to meet the cash flow forecast — again prepared using big data and AI. And so on. These areas offer significant potential for business but also include new sources of risk.

Political Risk

Political risk is important because it is random, very hard to determine using probability, and largely unhedgeable, uninsurable, and unavoidable. Major political risk issues include:

- **Taxes:** It seems that some governments want businesses to pay the maximum tax possible. The *G-20 Base Erosion and Profit Shifting (BEPS) Project* seems set to fundamentally affect investment decisions and is likely to depress investment as it decreases free cash flow to investors. Future developments in taxation will undoubtedly further impact investment decisions.

- **Sanctions and fines:** Sanctions increasingly affect all businesses, particularly banks. These are a key driver of risk aversion, depressing investment, and growth.

- **Regulation and compliance:** As complements to sanctions and fines, regulations and compliance also increasingly lead to a ‘compliance mentality’, which hampers effective risk management. Moreover, the key risk perceived by many organisations is regulatory or compliance failure, and this often frustrates sound business decision making.

- **Extraterritorial application of domestic legislation:** This new trend includes the US Foreign Account Tax Compliance Act (FACTA) and Volker Rule, the EU’s Financial Transaction Tax (FTT), and G-20’s BEPS.

- **War and conflict:** Affect international trade, customer demand, and increasing uncertainty overall.

- **Political future:** The political future of nations, regions, and politico-economic unions like the EU, is a significant uncertainty, highlighted by the recent Brexit vote in the UK, the ongoing US presidential election, and China’s One Belt One Road initiative, which relies heavily on international cooperation for success (cooperation that is still in the early stages). These types of factors depress investment in developed economies, but the reduction in banking provision also raises significant barriers to expanding into developing economies and/or participating in growth strategies.

- **Quantitative easing (QE) and negative interest rates:** These represent artificial distortion of investment and borrowing decisions. While remaining competitive in the current environment, organisations need to also maintain a plan for operating in a future world without QE and with more “normal” interest rates.

Foregoing Good Business Opportunities

A major issue in the current, risk adverse environment is that organisations have become irrationally cautious. We also wonder whether managers sufficiently understand the concept of sustainable value creation — whether for shareholders or the wider stakeholder community.

Some particular concerns include:

- A heavy, sometimes exclusive focus on income statement performance, with the starter and sometimes only question being “what is the effect on earnings per share?” Balance sheets and cash generation/absorption may only be addressed as part of the annual financial reporting process and going concern review, by which time it is often far too late.

- A lack of investment because too much risk is factored in, resulting in too high a cost of capital.

- A tendency to focus on a single answer rather than a range of outcomes, which can lead to a correspondingly narrow view on managing threats and opportunities. After all, not every slip on a banana peel is lethal...

ACT Activities

The ACT runs a variety of activities to support our members and other stakeholders and wider treasury community in their risk management activities.

Now in its fifth year, the *Contemporary Treasurer Survey* maps key international trends across a range of topics. Headline feedback from the January 2016 survey includes:

- Capital and liquidity management followed by general risk management are top priorities for boards, reflecting the ACT’s overall priorities.

- 45% of respondents spend more time on risk management than a year ago; 44% report spending about the same amount of time.

- 37% expect to spend more time on risk management in the coming year, 39% more time on capital & liquidity management and 17% more time on treasury operations.

- 47% see the cost of credit as more expensive in 2015, and 68% expect it to be more expensive in 2016; 39% see this increased cost as having a net negative effect on the organisation in 2016.

- 60% of respondents believe that financial regulation has a net negative effect on business due to factors such as cost, workload of compliance, and the irrelevance of much regulation to non-financial companies, and only 3% believe that regulation improves risk management.

- 46% are looking for higher qualified staff now than 5 years ago, which implies that professional bodies still have a clear role to play in providing appropriately qualified and supported professionals to businesses.

- Risk management is frequently the theme, or one of the themes, of our events, which are designed to be as accessible as possible and in a range of formats and durations to attract different audiences. Webinars are used to tackle highly topical themes, reach a worldwide audience and have a legacy benefit through recordings.

- Risk management is also explicitly addressed in the ACT’s qualifications and training programs, and the ACT is still the only organisation to articulate a framework for non-financial businesses to manage financial risks, consistent with general risk management frameworks such as ISO 31000.

Member Development Support

- All of the ACT’s technical resources are free to members, and much is free to all.

- The ACT’s **Treasurers’ Wiki** is a moderated open source

directory of treasury knowledge and very popular.

- We use social media a lot, and we maintain active general and regional LinkedIn groups and a WeChat group for China. Together with Twitter we find them good for encouraging debate, promoting thought leadership and raising profile. And we also interact with other groups such as the IFAC Global Gateway and LinkedIn groups.

- We are strengthening a progressive membership proposition linked to career progression with content – in the form of events and resources – targeted explicitly to member strata, e.g. by seniority and competency.

- We have developed a **Competency Framework for Treasury** in conjunction with employers and learning and development teams from multinational companies around the world which provides a comprehensive framework for career and competency development, as well as placing (financial) risk management in the wider business context.

- Careers support, including in the development of business and behavioural skills and a mentoring scheme which has had excellent feedback from both mentors and mentees alike.

- Education – a flexible pathway of treasury and cash management qualifications as well as training, e-Learning courses, skills diagnostics and in-company programs.

- Case studies and discussion in events.

- Technical briefings and print content aligned to risk management issues.

- Special interest groups, a Treasurers Forum for quick responses to immediate issues, and a senior Advisory Board to advise the ACT on macro trends at a strategic level.

Policy & Advocacy

- The ACT makes extensive representation to regulators,

governments and central banks across the globe. Besides advocating for non-financial firms and arguing the impact and unintended consequences of regulation primarily aimed at financial companies, we also comment on proposed changes in accounting standards and taxation issues.

- Collaboration with like-minded organisations/professional bodies: The ACT plays an active role in the European Association of Corporate Treasurers; it has strong relationships with IFAC, professional accountancy organisations, and other professional bodies, which help mobilise common interests and provide complementary perspectives on issues.

- Like many professional bodies, the ACT fosters senior advocates in organisations including private and public sector in order to grow credibility and reach for the brand, and to gain senior feedback on the needs in our markets and among our stakeholders.

This article has highlighted some of the challenges facing treasury specialists, and some of the ways in which the ACT provides support to its members and to the wider community of professionals working in the treasury space.

Some 50% of the ACT's members are Professional Accountants in Business (PAIBs), and the ACT is also working with IFAC, PAOs and the PAIB community to build enhanced capacity for individuals and organisations to meet these challenges, to better connect finance with the business, to take better informed decisions regarding threats to and opportunities for sustainable business success, and hence deliver appropriately risk-weighted returns for stakeholders. ●

★ *James Lockyer is a UK Chartered Accountant, and leads the ACT's Institutional Outreach Initiatives.*

Future of Accounting Profession:

Three Major Changes and Implications for Teaching and Research

By MUHAMMAD AZIZUL ISLAM

The accounting profession will face significant changes in the next three decades, and professional organisations, their members, and educational institutions should respond.

The three changes — evolving smart and digital technology, continued globalisation of reporting/disclosure standards, and new forms of regulation — are also major challenges for the profession. Association of Chartered Certified Accountants (ACCA) research — Drivers of Change and Future Skills — has

explored these important changes, expected to be encountered by the year 2025. Three are highlighted here:

First, accountants will use increasingly sophisticated and smart technologies to enhance their traditional ways of working, and these technologies might even replace the traditional approach. Smart software systems (including cloud computing) will support the trend toward outsourcing services (including more overseas outsourcing), and greater use of social media

via smart technology will improve collaboration, disclosure, engagement with stakeholders and broader communities. Social media (including Facebook, Twitter, and Google search will reveal more data (including alternative reporting) than any corporate assurance report and stakeholders will use tools to interpret “big data”.

Second, continued globalisation will create more opportunities and challenges for members of the accounting profession. While globalisation encourages the free flow of money from one capital market to another, enhanced overseas outsourcing activities and the transfer of technical and professional skills will simultaneously continue to pose threats to resolving local problems (with different cultural, financial, and tax systems).

Accounting firms in the US, EU, and Australia are outsourcing services to India and China for the purpose of cost minimisation, which will create a shift in employment within the accounting industry in the West. As globalisation has already been negatively impacted by Brexit and Trump’s presidential victory, accounting professionals are likely to see themselves having a role in this transformation.

Third, increased regulation, and the associated disclosure rules, will have the greatest impact on the profession for years to come. For example, increased regulation is imminent because of massive tax avoidance, transfer pricing, and money laundering as exposed via the panama papers. Many professional (tax) accountants will be affected by intergovernmental tax action to limit base erosion and profit-shifting.

Additionally, because of greater public pressures and stakeholder expectations, social and environmental considerations are getting importance alongside economic concerns in contemporary organisations. We see a range of stakeholder groups including shareholders, workers, governments or regulators, non-governmental organisations, media, and the community had a growing interest in organisational social and environmental issues. Because of the widespread stakeholder concern and associated regulations toward social and environmental considerations, contemporary organisations are facing challenges to find sustainable solutions to deal with the complexity of integrating financial, social, and environmental performance.

Quite tied to this, new forms of regulation (such as integrated reporting <IR>), which is required for South African-listed companies, and supply chain transparency disclosures, which are required for many California-based companies are emerging and members of accounting organisations are already engaged in this transformation.

The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, has allowed accounting professionals to open their minds to the possibility that accounting has the capacity to change. The important implication is that all professional accountants will be expected to look beyond the numbers, which will, in turn, enhance collaborations among members of multiple professions, including accountants, doctors, lawyers, environmental scientist, sociologists, and so on.

Implications for Teaching

Future accountants will increasingly need education in digital technology (including cloud computing and use of big

data), globalisation (outsourcing of accounting services), and evolving regulations (tax regulation, new forms of corporate reporting, integrated reporting regulation, and so on). The ACCA report revealed that knowledge of digital technologies is the key competency area where professional accountants have skill gaps. At present, accountants lack knowledge in transformation of new disclosure regulations, new forms of disclosures, and awareness of the interconnectedness of financial and non-financial reporting. Professional accountants will need the skills to provide more all-inclusive corporate reporting, which tells less about the numbers and more about the narrative of the organisation.

Unfortunately, at the moment, few universities have developed curriculums for accounting students in line with their future needs. Universities will need to develop or incorporate new units, such as cloud computing, big data, digital technology, integrated reporting, carbon emission accounting, and so on for accounting students. Professional accounting organisations should consult with universities to collate experts/lecturers in the new areas and run new courses. At the same time, universities should either invest in existing faculty members for training and learning or recruit experts to coordinate and lecture new units.

Implications for Research

Big accounting firms are conducting surveys on cloud computing, big data, technological change, new forms of fraud and corruption, and corporate sustainability in order to address the ongoing and future opportunities and challenges facing the profession. KPMG, for example, has produced survey reports on cloud computing, fraud/corruption/bribery, corporate sustainability, and <IR>.

A growing number of accounting academics are investigating more narrative corporate reporting. A growing number of accounting academics and their PhD students are looking at social and environmental sustainability issues and the associated global frameworks, such as Global Reporting Initiative Standards, <IR>, the UN Global Compact, Social Accountability, and so on. Accounting researchers are organising some national and international conferences, such as CSEAR and APIRA, to disseminate their findings to the wider community.

Professional accounting organisations, including Chartered Accountants Australia and New Zealand, CPA Australia, and the ACCA (UK) are providing seed funding to academic researchers to investigate issues in line with future economic, technological, social, and environmental changes.

Despite ongoing efforts by professional accounting organisations and academic researchers, there is a surprising gap in research that deals with the changes that will impact accountants and professional accounting organisations. Future research should drive industry collaborations and collaborations between inter-disciplinary academic researchers in order to reveal strategic responses to and pro-active strategies on changes in digital technology, the continued globalisation of standards, and new forms of regulation and associated stakeholder expectations. ●

★ **Muhammad Azizul Islam, is an Associate Professor & Team Leader of Accounting for Social and Environmental Sustainability Research Group, School of Accountancy, QUT, Brisbane, Australia.**

International Financial Reporting Standards Impact on Small and Medium Enterprises

By ROBIN JARVIS

Over recent years, there has been an ongoing debate about the influence of International Financial Reporting Standards (IFRS) on the accounting regimes of non-public interest entities in European Member States, and to some extent globally. Within the context of Europe, the accounting rules for non-public interest entities are set by the European Accounting Directive supplemented by Member States' Generally Accepted Accounting Principles (GAAP).

However, the Directive is silent on a number of matters, particularly with regard to measurement and recognition issues, and it is in these circumstances that local GAAP may follow IFRS.

Up until two very recent publications there has, however, been very little hard evidence to fuel this debate. The European Federation of Accountants and Auditors (EFAA) published *The Trickle Down Effect — IFRS and Accounting by SMEs*, which examines the accounting treatment in five EU Member States. The paper was also the subject of a lively EFAA Roundtable in Brussels on March 28.

Additionally, the journal *Accounting in Europe* is about to publish a Special Issue, *"The Role and Current Status of IFRS in the Completion of National Accounting Rules"*. This latter publication has a much wider coverage of EU Member States and to a great extent supports the findings of Trickle Down research.

The issue surrounding this debate is that currently the International Accounting Standards Board, national standard setters, and the European Financial Reporting Advisory Group in terms of endorsement of standards, apparently do not take any or very little account of the impact of accounting standards on non-public interest entities. These entities include small- and medium-sized enterprises, which make a significant contribution to most economies.

Trickle Down paints a very interesting picture of the impact of IFRS trickling down into the accounting regimes for non-public interest entities in the five countries examined (Germany, the Netherlands, Portugal, Spain, and the UK). The impact was significant. In Germany and the Netherlands, 57% of SME accounting treatments are converged with IFRS (either they are already established practice or due to trickle down).

In Spain and Portugal, the figure is 67% and in the UK 72%. In all five countries, trickle down was a major factor, rather than the use of IFRS being an established practice, in producing convergence ranging from 33% in the Netherlands to 59% in Portugal. In the UK, the research indicates that more than half

of SME accounting treatments were the result of trickle down. In general, significantly greater impact of IFRS was identified in medium-sized entities as compared to small- and micro-sized entities.

Two interesting related questions stemming from the research are: what was the motive for the five European national standard setters to adopt IFRS accounting treatments for non-publicly interested entities and what influenced them to not adopt IFRS accounting treatments? This subject generated much debate by participants at the EFAA Brussels Roundtable. The argument that there is a consensus that IFRS accounting embodies high levels of the important characteristics of understandability, relevance, reliability, and comparability for users of financial reports as compared to other accounting regimes is a compelling argument.

Additionally, the popularity of IFRS accounting treatments is clearly enhanced by it being the main source of education and training for accountants and other interested parties. In contrast, the reason why IFRS accounting treatments were not adopted seems to rest with conflicts with national taxation rules and complexity of IFRS from some transactions that may be suitable for large listed companies as compared to SMEs.

The EFAA research, given that medium-sized entities are most effected by trickle down, examined this group in more depth. It is clear that national GAAP of the five countries tended to use IFRS more where the Directive was silent. This was due to the nature of transactions and issues that this size of entity experiences (for example, over statements of prior years, pensions, and deferred tax). Less trickle down takes place in relation to the more complex matters, such as financial instruments. It was found that there are significant country differences, for example, Germany avoids implementing fair value principles.

These two studies demonstrate that if financial reports of SMEs are to meet the needs of their users, it is critical that there should be an impact assessment in the standard-setting process — and the endorsement process, in the case of EFRAG, that takes account of the impact on SMEs.

Also, the standard-setting and endorsement processes would surely benefit from the participation of SME stakeholders, such as SMPs. Finally, the case for consideration of IFRS and its impact on SMEs would be greatly enhanced if similar research was extended globally. ●

★ Robin Jarvis is a Professor of Accounting at Brunel University, London.

Alaafin Tasks Accountants on Integrity

His Imperial Majesty, Oba Lamidi Olayiwola Adeyemi III, the Alaafin of Oyo has charged accountants to take the issue of accountability and integrity serious if they are to contribute meaningfully towards rescue of the ailing economy of the nation.

The monarch gave the admonition in his palace when he received the 52nd President of the Institute, Deacon Titus Soetan who paid him a courtesy call during a 3-day official visit to Ogbomoso/ Oyo & District Society of ICAN.

He observed that professionals particularly members of ICAN have a lot of work to do to move the country out of the present state of recession.

He said further that the conventional way of doing things which is “where there is ambiguity, seek clarification” has been eroded by corrupt practices, adding that accountability, integrity as well as honesty are the qualities that can rescue the nation.

In another development, the Soun of Ogbomoso, Oba Jimoh Oladunni Ajagunbade III has extolled the virtues of the Institute, noting that ICAN as a brand has ever been spotless and not associated with corruption since inception.

He therefore urged members of the Institute to join hands in the fight against corruption in order to uplift the country from its current state of recession.

While giving his royal blessings to the ICAN team, the royal father enjoined members to also cherish culture and inculcate moral values.

Collaborate with FG to Take Nigeria Out of Recession, ITF Appeals to ICAN

The Director-General of Industrial Training Fund (ITF), Mr. Joseph N. Ari has appealed to members of the Institute of Chartered Accountants of Nigeria (ICAN) to collaborate with the federal government to bail the country from the current economic recession.

Mr. Ari made the appeal in Jos, while receiving the 52nd President of ICAN, Deacon Titus Soetan who paid him a courtesy visit in his office. He explained that ICAN as a professional Institute could help the government by giving professional advice that could fix the economy and move the country forward.

Furthermore, the DG appealed to ICAN to key into the economic diversification of the federal government and collaborate in some areas of interest. He said this will bring back the country’s lost



ICAN President, Deacon Titus Soetan with the Alaafin of Oyo, Oba Lamidi Adeyemi in his palace

economic glory.

“Relationship matters a lot in everything we do. If government is relating well with professionals like ICAN members and others, the economic problem we have could be easily resolved. The professionals could advise government on the steps to take, thereby bail the country out of recession,” he expressed.

Speaking further, the DG disclosed that over 500 ICAN members were employed by ITF all over the country, adding that none of them has been unprofessional in the performance of their duties.

At the National Institute for Policy and Strategic Studies (NIPSS), Kuru, Plateau State, the Acting Director-General,



Vice Chancellor, University of Jos, Professor Seddi Maimako (left) presenting a gift to ICAN President, Deacon Titus Soetan in Jos

Mr. Jonathan Juma, mni, eulogised ICAN members that had passed through training at the Institute. He described them as very brilliant and forward-looking. He also described ICAN's relationship with the Institute as cordial, adding that the two Institutes have collaborated in many projects that had brought good results.

Earlier, the ICAN President had disclosed that he was in Jos to see members of the Institute and check how they are faring with their employers and other clients. He explained that the visit would also avail him the opportunity to get first hand information from members' employees and their clients.



ICAN President, Deacon Titus Soetan presenting ICAN publications to the Vice Chancellor of Kaduna State University, Prof. Mahmud Tanko in his office

My Success Story is Incomplete Without ICAN – Vice Chancellor

The Vice Chancellor of Kaduna State University, Professor Mahmud Tanko, FCA has reiterated that the Institute of Chartered Accountants of Nigeria (ICAN) has contributed immensely to his success and his appointment as the Vice Chancellor.

Professor Tanko made the declaration in Kaduna recently, when the 52nd ICAN President, Deacon Titus Soetan paid him a courtesy visit in his office. He expressed gratitude to the Institute for granting him the opportunity to write its examinations which he described as a catapult to his success in life.

"ICAN has contributed immensely to my success in life because its certificate is respected anywhere. The certificate gave me a milestone to my success and contributed to my appointment as the Vice Chancellor of this University. I am proud to be associated with the Institute," he declared.

Speaking further, the Vice Chancellor urged the Institute to extend its gesture of donating Lecture Theatres to Kaduna State University just like it did to some northern higher institutions.

Earlier in his speech, the 52nd ICAN President had intimated the Vice Chancellor that he was in the state to see and have first

hand information on how members of the Institute in the state are faring with their employers.

He thanked Professor Tanko for keeping the flag of ICAN flying in the University and the state as a whole, adding that the Institute would be glad if it could go into partnership with the University in the area of manpower development.

Collaboration with ICAN Produced over 600 Chartered Accountants – NNDC

The Executive Director, Management Services at New Nigeria Development Company (NNDC), Mrs. Kaneng Adole has disclosed that the collaboration of NNDC and the Institute of Chartered Accountants of Nigeria (ICAN) in the training of chartered accountants had produced over six hundred chartered accountants across the country.

Mrs. Adole disclosed this in Kaduna while receiving the 52nd ICAN President, Deacon Titus Soetan who paid a courtesy visit to NNDC recently. She said that the feat was achieved because of the mutual cooperation between the two organisations.

She said: "Without ICAN's cooperation, NNDC couldn't have achieved this feat. ICAN/NNDC cooperation had produced over



NNDC's Mrs. Kaneng Adole presenting souvenir to ICAN President in her office

600 chartered accountants. I pray that other organisations could also borrow a leaf from NNDC and ICAN.

In his response, the ICAN President eulogised NNDC management for supporting the Institute, adding that the Corporation has also been a source of strong pillar to Kaduna District Society of ICAN.

While commending NNDC for sponsoring ICAN members in its employment to the Institute's programmes and events, Soetan also appealed for the organisation's sponsorship of undergraduates to write ICAN examinations.

Okwuadigbo Becomes 2nd Deputy Vice President of ICAN

Following the demise of the hitherto 2nd Deputy Vice President of the Institute, late Mrs. Uchenna Ifesinnachi Erobu, FCA recently, the governing Council of the Institute has approved the nomination of Mazi Nnamdi Okwuadigbo, FCA as the new 2nd Deputy Vice President of the Institute.

Mazi Nnamdi A. Okwuadigbo, BSc., FCA was born on September 17, 1950. He holds a Bachelor's Degree 2nd Class Upper Division (1977) in Accountancy from the University of Nigeria Nsukka (UNN) and qualified as an Associate of the Institute of Chartered Accountants of Nigeria (ICAN) in 1981, with membership number 2389. He became a Fellow of the Institute in 1987.

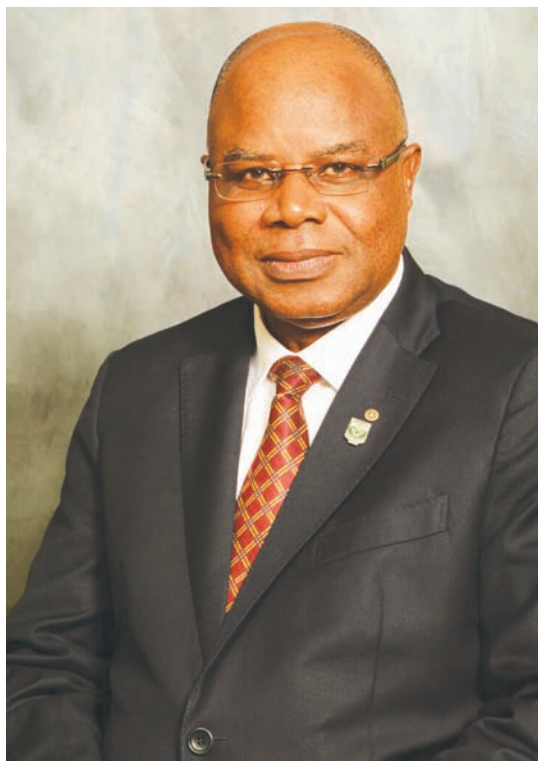
He commenced his professional career with Coopers and Lybrand (Chartered Accountants now PriceWaterhouseCoopers), where he garnered requisite professional training between 1978 and 1981. He was the Financial Controller/ Head of Administration of Gearhart Nigeria Limited (Oil Services Company – now part of Halliburton) between 1982 and 1988. He was once a Banker having worked with Barclays Bank Nigeria Limited 1972 to 1973. He has a proven track record of accomplishments in Administration, Finance and Accountancy. He is the Managing Partner of Nnamdi Okwuadigbo & Co. (Chartered Accountants), from 1989 to date.

Mazi Okwuadigbo is a highly effective communicator with great people skills along with strong leadership, problem solving and decision making abilities. He is hard-working, respectful and result oriented with positive mental attitude.

As a Member of Council of the Institute since 2007 to date, Mazi Okwuadigbo has at various times served on many committees either as Chairman, Vice Chairman or Member. He currently represents The Institute of Chartered Accountants of Nigeria (ICAN) as member of Small and Medium-Sized Practices (SMP) Committee of International Federation of Accountants (IFAC), New York, USA, January 2012 to date.

At the District/Zonal level, Mazi Okwuadigbo has been an active member of Port Harcourt & District Society since 1982. He served as Chairman of Port Harcourt & District Society from 1989 to 1991; Member/Adviser of Eastern Zonal Districts Accountants' Conference from 2006 to date. He has been the Council Coordinator of many District Societies of the Institute at various times.

Mazi Okwuadigbo was a former Member of Council of the Nigeria Accounting Standards Board (NASB) now Financial Reporting Council (FRC) 2007 to 31st Dec. 2012; former Council Member of Business Recovery and Insolvency Practitioners Association of Nigeria (BRIPAN) 2008 – 2010; former member of Council of Chartered Institute of Taxation of Nigeria (CITN) 1991 – 1992. He is Fellow of the Chartered Institute of Taxation of Nigeria



Mazi Nnamdi Okwuadigbo

(CITN), the Nigerian Institute of Management (NIM) and Associate of Business Recovery and Insolvency Practitioners Association of Nigeria (BRIPAN).

He was the President of Rotary Club of Trans-Amadi, Port Harcourt 1990 and holds the Paul Harris Fellow Award, Service Above Self Award and the Evergreen Rotarian Award of Rotary International. He is also a Past Assistant Governor of Rotary International District 9140.

He was the President of the University of Nigeria Alumni Association Port Harcourt Branch 1993 to 1997. He serves on the Board and Audit Committee of many organisations. Mazi Okwuadigbo, a Christian of the Anglican Communion, hails from Umuahia, Abia State. He is happily married to Mrs. Chinonyerem Okwuadigbo and they are blessed with children. He enjoys the game of football and table tennis. He is a Justice of the Peace (JP).

Undergraduate Qualifies as ICAN Member

An undergraduate of the Madonna University, Okija in Anambra State, **Mr. Stanley Ezeruo** has qualified as a Chartered Accountant having written all the stages of the Institute's examinations. The final year student in the accounting department of the University had with zeal and hard work passed each of the subjects in just one attempt and now awaiting induction.

Using his Association of Accounting Technician (AAT) certificate to register, he was able to claim exemption in Foundation and some subjects in Skill in the Professional level examinations.

In a brief conversation with him, Ezeruo disclosed that his flair for professionalism has made him to pursue the accounting course, noting that encouragement from professionals around him as well as his determination and hard work contributed to his success.

Meanwhile, the 52nd President of the Institute, Deacon Titus Soetan had encouraged students of the university to be focused and key into the Accounting Technician Scheme (ATS) of the Institute to pursue the accounting profession.

He reiterated that rather than allow the seemingly flashy things and ill gotten wealth associated with corrupt practices to entice them, students and youths should be encouraged by the examples of who have excelled through hard work and determination, adding that ICAN has enough programmes for accountability.

He said, "We are in a society where people celebrate corruption because moral values are no longer held in high esteem. Do not be attracted to the vices".

2017 ANNUAL DINNER & AWARDS:

The Gathering of Exemplary Leaders

The 2017 edition of the Annual Dinner and Awards of the Institute was held at Oriental Hotel, Victoria Island, Lagos, on Friday April 28, 2017.

As usual, the event was specially designed to honour and recognise individuals and corporate organisations that have distinguished themselves in greater measures by contributing to the growth of ICAN and Nigeria as a country. The awards were presented to deserving individuals and corporate bodies in three categories of Members, Non-Members and Corporate Organisations.

In his speech, the 52nd President of the Institute, Deacon Titus Soetan, said that apart from using the annual event to unwind, celebrate the Institute's successes and some achievers, the dinner also serves as a platform to discuss issues of professional and national interests.

"It is therefore a historic occasion to recognise and celebrate persons who, through their words, actions and professional demeanour, have demonstrated, overtime, unwavering commitment to the ideals and public interest mandate of the accountancy profession. It is therefore a joyous occasion as we also acknowledge the invaluable contributions of some corporate organisations to our society as part of their social responsibility



ICAN President, Deacon Titus Soetan presenting the ICAN award to Lagos State Governor, Mr. Akinwumi Ambode with Mrs Bolanle Ambode and ICAN Registrar, Mr. Rotimi Omotoso

to the nation," he added.

In his welcome address, the Chairman of Publication and Image Committee (PIC), saddled with the responsibility of organising the event, Mrs. Onome Joy Adewuyi stressed that the annual dinner and awards was designed for members to interact and rob minds with their colleagues, friends and family members in a relaxed, stress-free and serene atmosphere.

Nonetheless, she emphasised that the Institute's awards



Former President, Chief Olusegun Obasanjo being presented with his Award plaque by ICAN President, Deacon Titus Soetan while Governor Ambode watches in admiration



Professor Ishola Rufus Akintoye with his wife, receiving his award from the ICAN President, Deacon Titus Soetan



ICAN President, Deacon Titus Soetan decorating Professor Kabiru Dandago with his award medal at the Dinner



Mr Uyi Akpata receiving the ICAN award on behalf of PWC



Mr. Tunde Fowler receiving the award from the ICAN President, Deacon Titus Soetan, on behalf of Federal Inland Revenue Service



Deacon Titus Soetan presenting award plaque to Rev. Dr. Peter Esechie Obadan at the Dinner

were specially aimed at accomplished personalities who were well screened before the final selection. “The awardees were carefully and diligently selected by the Annual Dinner and Awards Sub-Committee of the Publications and Image Committee (PIC) of ICAN and were duly approved by the Council of the Institute,” she expatiated.

In the members’ category, four people who received the awards for their immense contributions to accounting profession and the nation as a whole are: Professor Ishola Rufus Akintoye, FCA; Professor Kabiru Isa Dandago, FCA; Rev. Dr. Peter Esechie Obadan, FCA; and Mr. Akinwumi Ambode, FCA.

In the non-members category, former President Olusegun Obasanjo, GCFR was the only recipient. He was honoured for his roles and contribution to the development of Nigeria.

In the Corporate Body category, Bank of Industry, Federal Inland Revenue Service (FIRS) and PricewaterhouseCoopers (PwC) were honoured. They were all recognised for their immense contributions to the economic and financial growth of the nation and for being employers of high number of chartered accountants. ●



Bank of Industry Ag. Managing Director, Mr. Waheed Olagunju receiving award from the ICAN President, Deacon Titus Soetan

Does Your Small Business Need an Accounting Solution?

Ask Yourself These Five Questions

By JEREMY ALDERSON-SMITH

If you're like most business builders, you probably don't love doing bookkeeping and working on your tax dues. You'd rather focus on what you do best – growing the company, bringing out new services and interacting with customers and employees.

Even if you're running a one-person micro-business; an accounting solution can help you streamline all the paperwork and number crunching so you can focus on the really important stuff.

There are many other benefits – from generating financial reports to complying with Federal Inland Revenue Services and State Internal Revenue Service requirements. It's not expensive anymore, thanks to cloud-based (online) accounting packages that offer a small monthly subscription fee.

Here are five questions to ask yourself if you haven't yet invested in accounting solution:

1. Are you struggling to track your cash flow, income and expenses?

Many entrepreneurs use paper records and their bank statements to keep track of the flow of money into and out of their businesses. This is time-consuming. It also makes it hard to keep track of payments expected, outstanding bills, and the company's precise, up-to-the-minute position with income, expenses, assets and liabilities.

With the right accounting package, you can generate a range of financial reports with a swipe on your mobile device or a click of the mouse. You can track sales performance, see which of your product lines are profitable or not, generate forecasts and budgets, and easily call up profit and loss statements.

2. Are you spending a lot of time filing financial records and doing your books?

Business owners without accounting solutions know the tax year-end ritual of printing out bank statements, digging paper bills and invoices out from boxes, and spending hours adding everything up.

This amounts to wasting days of your time each year that you could be out selling to customers or doing billable work. Or you could be spending money you might invest elsewhere in your business to pay someone else to do all your tedious and time-consuming paperwork. An accounting package gives you one place to keep your accounting records – and they'll be accurate and up to date.

3. Is your accountant asking you to invest in accounting solutions?

If your accountant tells you that you need an accounting solution, take heed. The accountant is probably billing you heavily for doing a lot of manual work on your behalf. He or she may also be concerned about your ability to produce accurate financial records in a timely fashion.

With an online accounting solution, you and your accountant can work on the same set of books at the same time from anywhere in the world. You can be processing your invoices, while your accountant is busy running reports, for instance. There's no more need for the accountant to come to your office for some simple paperwork.

"The benefits of cloud solutions are huge for us in terms of scaling our business nationally, supporting our clients virtually, with no loss of data, no installations and no backup efforts," says Chioma Ifeanyi-Eze, the founder of Nigeria's first online accounting shop and Sage One partner, Accounting hub.

4. Are you struggling to stay on top of issuing and paying invoices?

Do you spend a lot of time each month generating invoices for your customers and keeping track of your purchases from, and payments to, suppliers and service providers? With the right accounting package in place, you can quote from the accounting solution and then generate a customised, professional-looking invoice when it's time to bill. You should be able to easily create recurring invoices quickly and simply for each customer that needs to pay you the same amount each month. You'll also benefit from features that make it easier to track your own creditors.

5. Do you find reconciliations to be a pain?

Manual reconciliations are slow, inefficient, and prone to human error. With the right accounting solution, you can link your online banking account to your financial solution and each day your accounting records will be updated automatically. ●

★ *Alderson-Smith is the Director, Accountants Division, Africa & Middle East of Sage, the market and technology leader for integrated accounting, payroll & HR, and payment systems which provides intelligent and flexible cloud-enabled software, support, and advice to manage everything from money to people in 23 countries.*



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ICAN Commissions Lecture Theatres in Two Federal Universities

In its bid to improve the study of accounting in higher institutions in Nigeria, the Institute has commissioned 250-sitting capacity lecture theatres in the Federal University, Birni-Kebbi, Kebbi State and Michael Okpara University of Agriculture, Umudike, Abia state.

Performing the commissioning, the 52nd President of the Institute, Deacon Titus Soetan explained that the decision of ICAN Council to donate lecture theatres to some select institutions of higher learning was borne out of its conviction that the study of accounting should be encouraged and enhanced among the youths.

He also disclosed that the donation of the lecture theatres was not just for any institution but for ICAN accredited ones that had fulfilled all the requirements for accreditation.

He urged the authority of the Universities to make proper use of the building and ensure that they are well maintained, so that the purpose for which they were donated would not be defeated.

In his remark, the Acting Vice Chancellor of the Federal University, Dr. Sahabi Jabo who was represented by the Dean of Faculty of Arts, Social and Management Sciences, Professor Abdullahi Bashir, described ICAN's gesture as unprecedented in the history of the Institution.

"On behalf of the management, staff and students of the University, I assure ICAN that this gesture would be reciprocated by taking good care of the building and keep it in good use for the purpose for which it was donated."

Also responding, the Vice Chancellor of Michael Okpara University of Agriculture, Professor Francis Otunta, said the department of accounting of the school has undoubtedly received much attention from ICAN.

He explained further that the accounting department of the University was recently accredited under the Institute's Mutual Co-operation Agreement with Tertiary Institutions (MCATI) which enables graduates to enjoy extended exemptions from ICAN examinations.

"What you are doing in Umudike today is a challenge to other professional bodies in Nigeria, as funding of public universities should not be the sole responsibility of governments alone," he concluded.

ICAN Tasks State Governments on Capacity Building

State governments have been charged to engage in capacity building and joint audit practice to create more jobs as well as assist small and medium scale businesses to flourish.

This advice was given by the 52nd President of the Institute, Deacon Titus Soetan when he paid a courtesy call to the Governor of Anambra State, Chief Willie Obiano during his 3-day official visit to Awka/Onitsha District Societies of the Institute.

Speaking, the President observed that the adoption of

International Public Sector Accounting Standards (IPSAS) by local, state and federal government of countries has made the world to have a uniform accounting system capable of correcting and blocking fraudulent deals in the public sector.

He noted that it was necessary for the state to partner with the Institute in capacity building on technical issues on the adoption of IPSAS. He said further that in keeping with the spirit and intention of the Local Content Act, the Institute has championed the advocacy of joint audit in the country.

"One of the avenues to create jobs and assist Small and Medium Practices (SMPs) is to award audit jobs jointly to big and small firms. The Institute is of the view that if the Federal government, the 36 State governments and private sectors are able to use joint audit, there will be creation of jobs for small and medium practices which are the engine room for the development and growth of the economy. It has been acknowledged globally that SMPs drive the economies of the world," he added.

While commending the state government for its assistance to members of the District as well as sponsorship of members to relevant trainings, seminars and conferences in the past, Deacon Soetan requested that more members should be availed this privilege. He noted that it was very imperative for a Chartered Accountant to be exposed to continuous training in this ever changing business environment in which he operates.

Responding, Governor Obiano expressed his appreciation for the visit adding that the State would continue in its usual support to the Institute.

CAC Introduces New Form for Company Registration

Further to the reform initiatives of the Corporate Affairs Commission (CAC) to enhance the ease of doing business in Nigeria, the Commission has deployed a new Form CAC 1.1 which is a consolidation of the old CAC Forms CAC 2, CAC 2.1, CAC 3, CAC 4, and CAC 7.

According to CAC, the use of the new form takes immediate effect. The old Form CAC 2.1 has been modified and can be used by existing companies for appointment or change of Secretary.

With the new Form CAC 1.1, payment for Certified True Copy (CTC) will attract a fee of N2,000 only in addition to the sum of N3,000 payable for CTC of Memorandum and Articles of Association.

Furthermore, applicants are required to carefully read the notes at the back of the said Form before filling same. A copy of the new Form can be downloaded from the Commission's website

www.cac.gov.ng

Tax Potentials in Nigeria Are Under-utilised, Says ICAN President

The President of the Institute, Deacon Titus Soetan has decried the under-utilisation of tax potentials in the country. He made this known while declaring open the Forum of Members organised by the Tax and Fiscal Policy Management Faculty of the Institute

with the theme: *"The National Tax Policy: Imperative of Political Will, Institutional Framework and Implementation Roadmap"*.

According to him, modern governments all over the world are sustained by taxes which, when managed efficiently spur inclusive growth. He added that due to uncertainty of the country's major earner – the crude oil, there was the need to diversify the economy as well as explore tax opportunities.

"For tax payers, there is nothing demoralising than seeing individuals and organisations held in high esteem swindle the system. Firms and people that do not pay their fair share of tax push the burden on to others. I feel tax revenue are critical to sustainable development because they provide government with independence revenue for investment, development, reducing poverty and delivering public services, increasing state capacity, accountability and responsiveness to citizens, he said.

Speaking further, the ICAN President called for the restructuring of the nation's tax system in such a way that the framework of tax exemption, tax incentives and waiver are streamlined while the condition of business operations should be evaluated vis-à-vis the tax burden placed on them.

In his own submission, the paper presenter, Mr. Taiwo Oyedele posited that the federal government should sanitise tax administration as the country appears to lack consistent tax policy.

"The introduction of the national tax policy therefore is a welcome idea and the implementation is imperative to the economic growth of the nation. No doubt, the national tax policy can make a difference if properly strengthened but it will require the cooperation of all stakeholders. Until there is strict enforcement of laws, the reign of illegal taxes will continue. Mechanism to reduce or eliminate double taxation should be worked out immediately," he concluded.

Advise Government on Practical Solutions to Economic Challenges, Udom Urges ICAN Members

The Akwa Ibom State Governor, Mr. Emmanuel Gabriel Udom, FCA has appealed to members of the Institute to seize the opportunities offered by the present economic challenges to come up with genuine and practical solutions that will assist the government at the states and federal levels to get out of the economic recession currently tormenting the country.

He said this at Akwa Ibom Government House while playing host to the 52nd ICAN President, Deacon Titus Soetan who paid him a courtesy visit.

According to him, there was the need for the required moral rebirth in Nigeria in order to enjoy the economic growth and progress associated with developing nations that are blessed with human and capital resources.

Speaking further, Governor Udom assured the ICAN President, of his resolve to always uphold the motto of Accuracy and Integrity as ascribed by the Institute, as a way of uplifting the ICAN brand, adding that his training as a chartered accountant has made him a political manager of men and resources in his state.

The governor expressed the state's desirability and readiness to be part of the Institute's SSP. He disclosed that the state was ready to commence the programme with the November 2017 diet of the professional examinations.

Earlier in his address, the ICAN President, Deacon Titus Soetan commended the giant strides of the governor regarding his developmental programmes in the state as attested to by many ICAN members in the state.

Deacon Soetan spoke on the various milestones attained by the Institute in its efforts at maintaining the ICAN Brand as the only preferred accountancy brand in the nation and within the African continent.

The President spoke on the need to continue to maintain and sustain the ICAN Brand as he called on the governor as one of the ambassadors of the Institute to continue to remember its motto of **Accuracy and Integrity** in his dealings with members of the public.

He also thanked the governor for appointing some members of the Institute into the state ministries and agencies and called on him to further create the opportunities for more members to serve the state in various capacities based on their professional capabilities.

Avail Government of Your Professional Services, Obong Advises ICAN Members

The traditional ruler of Eket, Akwa Ibom State, Obong E.C.D. Abia, FCA has called on the leadership of the Institute and other members to avail the federal government of their professional services in order to get out of the current economic challenges facing the nation.

He decried the effect of corruption on the nation's socio-economic activities but called on ICAN members to live up to their professional calling, adding that they have greater roles to play in the nation either in employment or professional practice.

He advised members to embrace relevant and updated training programmes that are relevant to modern day accounting operations in order to be relevant in the scheme of operations, stressing the importance of information technology in today's business world.

The monarch called on members of Uyo & District Society of ICAN to support the present government in the state in order to make his tenure a success.

In his remarks, the Institute's President, Deacon Titus Soetan, explained that the courtesy visit to the monarch was a show of solidarity to the people of Eket that their choice of the monarch was not a misplaced priority, considering his professional antecedent as a fellow of the Institute.

He described Obong Abia as one of the leading lights of the profession and congratulated him on his ascension to the throne of his fore fathers, wishing him success and good luck.

While highlighting some of the Institute's milestones in the accountancy associations within the sub regional, continental and world level, he challenged members on how to sustain the ICAN brand and uphold its sanctity. ●

FROM OTHER BODIES

IFAC Global Survey Reflects Growing Accountancy Talent and Technology Challenges

Accountants working in small- and medium-sized practices (SMPs) around the world are facing heightened staffing challenges, according to the latest IFAC Global SMP Survey results. While attracting new clients, keeping up with new regulations/standards, and pressure to lower fees remained key challenges faced by SMPs, attracting new/retaining existing staff made the top four challenges for the first time since the survey was conducted in 2011.

Additionally, the anticipated impact of technology developments over the next five years increased substantially in 2016 over 2015. Staying current with new hardware and software, as well as moving to the cloud, topped the list of technology challenges.

Despite these challenges, SMPs' future performance expectations increased slightly from a year ago in three of the four service areas, with the exception of tax. Growth is expected to be driven by advisory/consulting services, along with accounting, compilation, and other non-assurance/related services, with 45% and 44%, respectively, predicting fee revenue increases in these areas in 2017.

"The ever-increasing pace of technological change represents both a challenge and opportunity for SMPs," said IFAC CEO Faye Choudhury. "As trusted business advisors to small- and medium-sized entities or SMEs, a sector critical to global economic stability and growth, SMPs need to consider how they can best leverage technological advances to reduce costs and offer value-added services to meet clients' changing demands and expectations. In addition, SMPs that keep pace with developments in technology are likely to do better in attracting, retaining, and nurturing talent."

Nearly 75% of OECD Countries Have Adopted Accrual Accounting, Says IFAC, OECD

Nearly three-quarters of OECD countries have adopted accrual accounting for their year-end financial reports and more than a quarter now prepare their annual budgets on an accrual basis, according to the landmark study *Accrual Practices and Reform Experiences in OECD Countries* by the International Federation

of Accountants (IFAC) and the Organisation for Economic Co-operation and Development (OECD).

The study, which examined accounting and budgeting practices at the national government level in OECD countries, discusses the challenges and benefits of accruals reforms and considers what steps countries are taking to make better use of accrual information in the future.

"High-quality financial reporting is essential to ensure that governments make fiscal decisions based on up-to-date information and an accurate understanding of their financial position. They provide a mechanism through which legislatures, auditors, and the public at large can hold governments accountable for their financial performance," said Faye Choudhury, IFAC CEO.

The study showed that most OECD countries have reformed and modernised their financial reporting practices over the last few decades:

- ▶ Approximately three-quarters of OECD countries have adopted accrual accounting for their year-end financial reports as a key priority;
- ▶ More than a quarter of OECD countries prepare their annual budgets on an accrual basis; and
- ▶ Audit techniques and accounting standard-setting mechanisms have also evolved significantly in the wake of accounting reforms.

The study also points out that while the direct adoption of international accounting standards, such as International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS), by national governments remains very low, many standard setters use IPSAS or IFRS as primary or explicit references for developing their national standards.

"While governments still seek to improve the usefulness and comprehensibility of their financial reports, a majority of OECD countries expressed satisfaction that accounting reforms have already resulted in greater transparency and accountability of their financial operations," said Jón R. Blöndal, Head of the OECD Budgeting and Public Expenditures Division.

Sustainability: Challenges and Opportunities for SMPs and SMEs

Small- and medium-sized entities (SMEs) might think that sustainability is only relevant to large companies. Maybe they think they cannot afford to be sustainable, that measuring and managing environmental performance amounts to a costly and unnecessary burden.

Moreover, their accountants, both those employed by the business (accountants in business) and those providing services to the business (accountants in practice), will tell you it is a hard sell getting SMEs to embrace sustainability. However, SMEs that

integrate sustainability into their core business strategy can benefit from lower costs, reduced risk, and new opportunities. And their accountants, typically operating in small- and medium-sized practices (SMPs), can play a key role in their journey.

SMEs and the Benefits of Sustainability

SMEs are crucially important to the health and stability of the global economy: they account for over 95% of all businesses and for the majority of private sector gross domestic product (GDP), wealth and employment creation, and social and environmental impacts.

Meanwhile, there is immense pressure on the natural environment and a recognition that finite resources are fast depleting. Today, SMEs are increasingly being faced with pressure to measure and manage their impact on the environment.

They are an integral part of the supply chain where there is a growing demand for sustainability management both from customers and suppliers, especially for those SMEs seeking to secure contracts with governments or larger companies. SMEs also need to ensure they have access to the resources they need to be able to continue offer their products and services in the future.

That said, many SMEs may still feel they can delay addressing sustainability issues. Our global SMP poll indicates there are other more urgent issues preoccupying businesses, including economic concerns and keeping up with new standards, prompting sustainability to slide down their list of priorities. This may explain why few SMPs are presently offering sustainability services. But in the longer term, the sustainability issue is here to stay.

The good news is that there is growing evidence that sustainability initiatives, such as those to reduce an SME's carbon footprint, can also help improve their bottom line. SMEs of all shapes and sizes — for profits and not-for-profits, public or private, across all industrial sectors — stand to yield significant benefits from adopting sustainable business practices.

The initial cost of integrating sustainability into the core business strategy, and reporting on it, can be more than offset by cost savings, reduced risk, positive brand association, and the ability to meet consumer, investor, and supplier demand for environmentally conscientious products and services. In this way, the initial cost is more an investment.

Opportunities for SMPs

Accountants working in SMEs can help their employers at each step of the way, from advising on the costs/benefits of behavioural changes aimed at reducing waste, to investment in new equipment and alternate sources of energy, to developing a comprehensive environmental management system (EMS).

However, many SMEs lack the capability to this without outside help. They will likely seek the help of someone they trust, their accounting firm, a demand that can generate new revenue opportunities for SMPs. But first SMEs need to know that they can expect assistance of this nature from their accountants.

Given that SMEs are keen to realise the financial benefits of adopting more sustainable practices, a starting point for SMPs might be to offer to help their clients implement the plan-do-check-act method for the control and continuous improvement of

processes and products.

This advisory service could include improving business opportunities and creating efficiencies, identifying the risks to cash flow that social, economic, and environmental change will present, and ensuring that clients or employers take advantage of the cost reductions, minimise any cost increases, and maximise the potential revenue by adopting business strategies that identify and address those sustainability issues that are most relevant to their particular business circumstances.

In addition, SMPs might wish to encourage their SME clients or employers to have an EnviroReady Report, an engagement based on ISRS 4400 that confirms that the business has an environmental management system (EMS) in place that meets the requirements in ISO 14001:2004.

Some accountants might also help SMEs do some form of sustainability reporting, such as the Global Reporting Initiative's Level C. They could employ a step-by-step approach of making a public commitment to take action, assessing the business's impact, setting targets for reducing impact, acting to reduce impact, and publishing the business's policies and actions.

Some SMPs are already helping their clients to develop metrics and the systems needed to capture and report on the metrics. If reporting is deemed valuable, SMPs could progressively do more, culminating in getting some form of assurance on what the client/ employer reports, perhaps using the IAASB's ISAE 3000 series of engagement standards, such as ISAE 3410 for greenhouse gas emissions.

Initial Steps in Offering a Sustainability Service

I was suggested that SMPs take the following steps to ensure they have the prerequisite expertise to offer a sustainability service:

1. **Build partnerships** — SMPs should establish collaboration with local environmental sustainability experts in order to gain local access to credible knowledge.
2. **Gain experience** — This begins in the SMP's own business. Practitioners should review the environmental sustainability of their own business and then use that valuable experience to have rounded, relevant conversations, based on genuine experience, with their clients.
3. **Seek information** — Practitioners should familiarise themselves with information sources that they could recommend to others or use to broaden their own knowledge.
4. **Formalise commitment** — Where appropriate, practitioners should formalise their commitment to offering environmental sustainability advice through marketing and awareness raising in newsletters, their documentation, and website.

Ultimately, offering a sustainability service can help SMPs both add value to the services they offer and help their clients/ employers improve the way they run their businesses. Applying the same principles to the practice itself can help accountants improve the way they run their own businesses as well.

★ *Culled from www.ifac.org*

Who Do You Want to Work With?

By TANYA BARMAN

Professional accountants globally have a Code to uphold. There is a clear obligation for them to act with integrity and objectivity, and not to subordinate their judgment to others.

Professional codes have developed over recent decades in light of the actions of organisations, both public and private, whose standards of business conduct have been questionable at best and shocking at worst. It is not a surprise, therefore, that accountants, who have a core role of representing the facts, and to be straightforward and honest, may face pressure from time to time from colleagues, superiors, or clients.

CGMA research findings in 2015 showed that over a third of management accountants globally had felt under pressure at some point to compromise their employers' ethical standards.

The professional needs to push back and try to influence the right course of actions or, if that fails, disassociate. Influencing change in a positive way is easiest to do in the right culture. When seeking a new role or considering a move to a new division, or indeed entering a new partnership or venture with others, how do you weigh up the culture?

There are a number of questions that can be used in interviews and related discussions to get insight into how ethics are applied in practice:

- ▶ How do you describe your organisational culture or values, and how do you assess how these are embedded in the business?
- ▶ What training does your organisation offer to support these areas?
- ▶ What routes exist for escalating ethical concerns? What speak-up procedures are there and how are they managed?
- ▶ How is individual performance assessed in relation to the desired behaviours? Has this impacted on the culture?
- ▶ What action is taken against staff members, vendors, or partners who breach organisational policies or have been found to have breached regulations?
- ▶ How does the organisation respond to appropriate challenge in relation to issues of integrity?

The dialogue around these discussion areas will give great insight into the culture of the organisation and how they prioritise ethical business practices. The responses will also give insight into the type of individual they want working with them.

CGMA, in partnership with the Institute of Business Ethics, has produced a guidance document on ethical due diligence in recruitment, outlining steps to be taken when hiring in new staff, promoting staff, or, as outlined above, when reviewing a new role.

There is greater recognition that a values-based culture is key to sustainable growth. Both how and who you hire create the foundations for the culture you seek by employees' behaviours reflecting an organisation's stated values and corporate responsibilities.

By recruiting with an ethical lens, you can help ensure that the

right people are in place to conduct business the right way. And by pursuing a role with an ethical lens you can feel confident in making the most of your professional attributes.

★ *Tanya Barman is the Associate Director, Ethics, at Chartered Institute of Management Accountants.*

Exploring the Demand for Agreed-Upon Procedures Engagements

By CHRISTOPHER ARNOLD

Agreed-Upon Procedures (AUP) engagements are widely undertaken in many jurisdictions and frequently used by regulators, funding bodies, not-for-profit organisations, creditors, and other users.

In 2015, the International Auditing and Assurance Standards Board (IAASB) formed a Working Group to help the board understand AUP engagements use, national developments in relation to standards addressing AUP engagements, and broader market needs. This information will support any possible revisions of International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information, which was developed over 20 years ago.

The Working Group issued a discussion paper last November, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*. The paper:

- ▶ Highlights the key features of AUP engagements performed in accordance with ISRS 4400;
- ▶ Highlights the results of research and outreach by the Working Group; and
- ▶ Seeks stakeholder views on the issues to help inform the development of a standard-setting project proposal to revise ISRS 4400 and any other activities that may be necessary.

Specifically, the paper explores:

- ▶ Current demands for AUP engagements, implications for IAASB standard setting, and, in particular, the extent to which users and practitioners find existing requirements and guidance helpful in undertaking an AUP engagement and producing an AUP report that is valued by users; and
- ▶ The demand for engagements that combine reasonable assurance engagements, limited assurance engagements, and non-assurance engagements, such as AUP engagements, to meet emerging needs.

The IAASB and the Working Group would like input from investors, preparers, those in governance roles, standard setters, practitioners, internal auditors, regulators, academics, and other stakeholders. This input will help determine what is needed to meet stakeholder's needs, including standard setting and other possible actions. ●

★ *Christopher Arnold is the Head of SME/SMP and Research at IFAC.*

Can Enterprises Function Without the Budget?

Delineating the Controversy

By RAPHAEL ETIM and IWORA G. AGARA

Budgeting is one of the most popular management tools used by organisations in planning, controlling, coordinating and communicating of plans, programmes, policies and decisions. The acceptance of this tool is supported by empirical evidences in most continents of the world. However, recently the Hope and Frazer school of thought has criticised this tool, suggesting it should be abandoned. The question is can an enterprise exist without a budget? This paper evaluates the criticisms against budgeting in terms of its principles and dynamics of budgeting and seeks to delineate the controversy and to show that the budget is an indispensable tool. It provides a rationale for adaptation and variability in the use of the budget and its control mechanism to manage organisations for optimal performance. Where there is defect in the expected outcome, it is the management that should be criticised and blamed as there is no substitute for planning which is the essence of budgeting.

Keywords: Budgeting, delineating, controversy, paradigm, innovation.

1.0 INTRODUCTION

The emergence of the factory system and the industrial revolution of the nineteenth century brought with it concomitant managerial challenges. Some of these challenges are: difficulty in evaluating performance of managers and sub-ordinates; difficulty in selecting the basis for employee reward, and motivation of managers for greater performance; and the difficulty in controlling the operations of an enterprise. The most popular management control mechanism employed by firms to assist in resolving these challenges is Budgeting and Budgetary Control System (BBCS). The BBCS is the single accounting or financial control instrument that permeates the entire organisation. Every aspect or unit of the organisation is affected by the provisions and direction of the budget. This may

explain why Becker, *et al.* (2010) describes it as the cornerstone of the firm's management accounting and control system. The budget remains a dominant management control and performance evaluation mechanism in most organisations. The 'conservative' scholars such as Collins Drury, Charles Horngren, T. Lucy, David Dugdale and a host of practitioners, support this view.

The result of several surveys, and in particular that of some North American companies by Libby and Lindsay (2007) indicate that most managers feel budgets are indispensable and they (managers) are yet to settle for a better alternative fearing that they could not manage their companies without the budget. Jacobs (2003) also confirms that many managers cannot conceive of managing a company in any other way than using the budget while companies that do without the budgeting system run the risk of

being considered poorly managed. One of the explanations for the seeming indispensability and the ubiquitous use of budgets and the budgetary control system as Hansen *et al.* (2003) observe is:

...largely due to its ability to weave together all the disparate threads of an organisation into a comprehensive plan that serves many different purposes, particularly performance planning and ex post evaluation of actual performance vis-à-vis the plan (p.96).

Amidst this function, the budget as a management control mechanism commenced in the 1920s as a tool for managing costs and cash flows, by the 1960s the budget has become a fixed performance contract between superiors and subordinates, and rewards and punishments are based on it (CIMA, 2005). Its evolution as a tool of management control is characterised by several modifications in techniques and process to suit different economic and business circumstance.

However, notwithstanding its evident dominance in organisations as a control mechanism, the traditional budgeting system has been severely criticised by the 'extreme radical' school of thought spearheaded by Hope and Fraser stating that in spite of its integrative function and as the basis for performance evaluation, the budgetary control system has many limitations. The criticisms against budgeting range from being a tool of repression that encourages cheating, skimming and lying to being antithetical to innovation have provoke intense debate, in recent times, as to whether or not to abandon the budgetary control system.

Our concerns, however, are:

- a. Do these criticisms apply to budgets and budgetary control systems in general?
- b. Can an enterprise or organisation exist without a budget?
- c. What do the criticisms imply for enterprises, especially in developing economies, and their ability to perform in the global information age in terms of innovation and response to customer complexities and expectations?
- d. What actually is the issue in the controversy?

These questions are the concerns of this article. The major objective is to delineate the controversy and provide a rational for adaptation and variability in the use of the budgets and its control mechanism in efficient management of organisations and enterprises. The paper aims specifically to:

- i. Overview the concept and dynamics of budgeting;
- ii. Evaluates the criticism levelled against budget and budgetary control based on (i) above;
- iii. Present the implications of the criticisms for enterprises, especially in developing economies; and
- iv. Draw a conclusion and an inference for improvement.

The discussion will provide a clear understanding of the principles, processes, techniques and dynamism of budgeting as a tool for operational control and coordination. The inference is expected to provide a basis for a synthesis in the search for a replacement for budget and budgetary control mechanism in organisational control and management.

To achieve the objectives of this study, the literature review approach is adopted. Major source of information is secondary. The study is organised in 5 sections. Section 1 is the introduction.

Section 2 presents the dynamics of budgeting and budgetary control. It explains vividly what the budget is not. Section 3 presents and evaluates the criticism of budgeting and its control mechanism based on the concepts and dynamics of budgeting. Section 4 is concerned with the implications of the criticisms on enterprises. Section 5, the conclusion, draws an inference on the arguments and presents a basis for improvement in the use of budgeting as a tool of management.

2.0 THE CONCEPT AND DYNAMICS OF BUDGETING

Accounting, finance and management literature is replete with definitions and discussions on budgeting. Budgeting is one of the first management accounting practices to attract researchers' attention because of its dominant role in corporate financial management. Hence, the budget is often referred to as the cornerstone of the management accounting system (Becker, *et al.*, 2010). The budget, generally, is a plan, which is expected to enable an organisation to manage her resources efficiently and achieve her targets within set time horizon. Several definitions of budget abound in literature. We shall specify a few in this article.

The CIMA Terminology (2005) defines a budget as:

...a quantitative expression of a plan for a defined period. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows (p.5).

Agara (2005) defines budget as a detailed plan, expressed in quantitative terms, that specifies how resources will be acquired and used during a specified period, usually a year to achieve specific objectives. John (2007) sees budget as a quantitative plan of activities and programs expressed in terms of assets, liabilities, revenue and expenses. Drury (2000) considers budget simply as the plan of activities to be undertaken in an organisation in the future. Elbert and Aagtje (2008) also see the budget as a plan of action for a unit or activity covering a fixed period, broken down by sub-periods.

All the definitions of budget recognise that a budget is a plan of how resources (i.e. revenue or other cash inflows) are to be obtained and how such resources are to be applied (i.e. expended) during a specified period. All organisations have objectives which are expected to be facilitated by the budget. This implies that budgets are relevant to all organisations — both profit oriented and non-profit oriented organisations. Drury (2000) indicates further that the budget serves several functions which include planning of annual operations, co-ordination of the operations of various departments and units of the organisation, communication of plans to the various responsibility centre managers, motivation of managers to strive to achieve the goals of the organisation, controlling and evaluation of the performance of managers via budget variance analysis.

Carolyne, *et al.* (2007), say the budget is one tool that has provided the link between control and performance. However, according to the authors, effective level of budgetary control has a positive effect on performance. They explain the word "effective level of budgetary control" to mean one that is reflective of the needs of the organisation and meets the objectives of the analyst. This suggests that implementation of budgets must consider the needs of the organisation. In other words, that an expenditure

item is in the budget does not justify the spending of resources on it but rather resources are expected to be expended according to the needs of the organisation. To be able to decide on whether a budgetary item is irrelevant in the current circumstance calls for motivation of the managers to enable them to think about the success of the organisation and not about themselves. Motivation means managers have the opportunity to operate flexibly within the framework of the strategic objectives of the firm by using their resources to achieve set objectives. The focus is not compliance with budgetary provisions (at the detriment of strategic objectives) but rather on achieving the objectives of the firm using the available resources efficiently. Managers should be more motivated to achieve success in an environment where there is leverage for them to apply their acumen legitimately to further the interest of the company.

Unfortunately, the different methods and techniques of performing these functions have their challenges. The budgeting techniques are numerous as they are developed to contend the limitations of others. For instance the first budgeting techniques, the line item budgeting is replete with a lot of limitations that have resulted in the introductions of several other techniques and types of budget to eliminate the challenges as they are observed. These other techniques are, namely: Zero Based Budgeting, Activity — Based Budgeting, Programmed Budget, Performance Budget, Planning Programming Budget, Multi-year or Rolling Budget, and Responsive Budgets.

A critical assessment of the functions of budgets reveals its pivotal role in the management of organisations. This underscores the prominence given to budgeting by some managers. According to Jensen (2003), the budget is so prominent in the management of organisations that managers of organisations or companies cannot conceive of managing their organisations in any other way except through the use of the budget. Jacobs (2003) believes strongly that there is no alternative to budgeting and budgetary control. This explains probably why some managers are so passionate about the use of budgets, at least if not for any other reason, for the reason that budgets have become a major resource allocation mechanism in organisations..

2.1 WHAT A BUDGET IS NOT

The section summarises the misconceptions about a budget and budgeting.

A budget is a document that translates plans into money — money that will need to be spent to get your planned activities done (expenditure) and money that will need to be generated to cover the costs of getting the work done (income). It is an estimate, or informed guess, about what you will need in monetary terms to do your work.

A budget is **not** (Schick, 1988; Blondal, 1997; Dean, 1989):

- ▶ Written in stone – where necessary, a budget can be changed, so long as steps are taken to deal with the implications of the changes. So, for example, if you have budgeted for ten new computers but discover that you really need a generator, you could buy fewer computers and purchase the generator. In public service, virement warrant is used to meet this need;
- ▶ Simply a record of last year's expenditure, with an extra 15 percent added to cover inflation. Every year is different.

Organisations need to use the budgeting process to explore what is really needed to implement their plans;

- ▶ Just an administrative and financial requirement of donors. The budget should not be prepared as part of a funding proposal and then taken out and dusted when it is time to do a financial report for the donor. It is a living tool that must be consulted in day to day work, checked monthly, monitored constantly and used creatively; and
- ▶ An optimistic and unrealistic picture of what things actually cost – don't underestimate what things really cost in the hope that this will help you raise the money you need. It is better to return unspent money than to ask for a "bit more" so you can complete the work.

3.0 CRITICISMS AGAINST THE BUDGETING SYSTEM

In spite of the seeming indispensability of the budget as a management tool, there have been severe criticisms against the budgeting system. According to Hope and Fraser (1999) Jack Welch, Chief Executive of General Electric, sees budget as "bane of corporate America", Bob Lutz, former Vice Chairman of Chrysler, says budget is a "tool of repression," and Jan Wallander, former Chief Executive of Svenska Handelsbanken, The Swedish bank, regards budget as an "unnecessary evil." Quoting Welch further, Elbert and Aagtje (2008) report Welch's anger against the budget as follows:

Not to beat around the bush, but the budgeting process of most companies has to be the most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organisation. It hides opportunity and stunts growth. It brings out the most unproductive behaviours in an organisation, from sandbagging to settling mediocrity. In fact, when companies win, in most cases it is despite their budgets, not because of them. And yet, as with strategy formulation, companies sink countless hours into writing budgets. What a waste!

Central among the criticisms against the traditional system of budgeting are:

- That the budget is a tool of repression and encourages cheating, skimming and lying and therefore the bane of corporations (Hope and Fraser, 2003);
- That budgeting process consumes too much of the valuable executive time, about 20% of management time in crunching figures that completely distort peoples' behaviours, without concomitant benefits to the firm (Daum, 2001);
- That the budget, at its current state, does not enable the front managers to make quick decision in response to the complex customer demands in an information age and global economy with stiff competition because of the cap placed by the budget. Therefore, management is deprived of market information since the front line managers have no incentive to share their experiences. Budgets are seen as obstructing organisations adaptation to the challenges of the information age (Hope and Fraser: 2001a and b);
- That in managing performance, budgets represent fixed term performance contracts and such a performance management system does not help to ensure teamwork

and agility (responsiveness to changes in the market) required for organisational success (Hope and Fraser, 2003);

- That budgets reinforce the features of centralisation which emphasises coercion, forcing managers to co-operate against their will, inflexible planning, and command and control which are inappropriate for modern companies (Mourik, 2006,). Hope and Fraser (2003) observe in this connection that modern organisations reject centralisation, inflexible planning and command and control and wondered why organisations would still cling to a system (i.e. traditionally budgeting system) that reinforces these tendencies?
- On the issue of innovation, a sine qua non condition for enterprises to withstand global competition, traditional budgets are said to be antithetical to innovation. According to David, *et al.* (2006), while economic entities are expected to be innovative to survive the global competition, budgets do not facilitate the imperatives of innovation because whereas innovation demands creativity and risk-taking budgets encourage courteousness and risk-averseness.

There are also other serious concerns raised about the budget. Daum (2001) observes that budgets are fast losing their relevance in the contemporary business world and are outdated by reality; therefore, the continuous use of the budget as a management tool is questionable. Hope and Fraser (2003) agree with Daum (2001) that at extreme, in the attempt to meet budgetary targets, corporate governance of the company may break down. Becker, *et al.* (2010) submit that budgets do have some level of dysfunctional attributes. The effect of this is that line managers engage in gaming as part of their normal business life style (Jensen, 2003). Jensen (2009) adds that budgets lack integrity and sincerity to support their use as a basis for compensation or any form of reward and suggests that to ensure good corporate governance and systems integrity the budgeting system has to be reviewed because:

...budget-based systems reward people for lying, and for lying about their lying, and punish them for telling the truth (Jensen, 2003).

This means efficiency in the use of resources is not encouraged by the traditional budgetary system. Morlidge (2005), confirms this opinion and notes some constant clichés among superiors:

"Yes I **know** it's the right thing to do... but it isn't in the budget".

"You didn't spend your budget... how can you be so stupid?" (p.181).

Morlidge (2005), also observes that budgets lead to:

Cost and bureaucracy: Resources are wasted in this exercise and ... benefits are dubious.

Bad behaviour: The quality of budget data is compromised by cautious behaviour and ...fosters political agitation instead of entrepreneurship.

Inflexibility: It takes too long (usually about six months) to complete the process and as a consequence plans are often obsolete before the results are published (p.181).

CIMA (2007) identifies some of the pitfalls of budgets to include, that budgets:

- Rarely focus on strategy and are often contradictory;
- Are time consuming and costly to put together;
- Constrain responsiveness and flexibility;
- Often deter change;
- Add little value, especially given the time taken to prepare them;
- Focus on cost reduction rather than value creation; and
- Strengthen vertical command and control.

Scarlett (2007) calls budget a dependency model, which provides fixed plans that guide actions of managers while the plans themselves (i.e. the budgets) quickly become obsolete soon after being made. Budgets are suitable for centralised organization with a vertical command structure. Information flows from top to bottom and the bottom is only to carry out instructions with little inputs into the budget. Thus those further down the organisational strata are judged by the extent to which they comply with such orders. This approach, also according to Scarlett (2007), breeds various organisational challenges and has been linked to some high-profile business failures.

Neely, *et al.* (2001) presents a summary of the most cited weaknesses (concerns) about the traditional budgeting system, drawn primarily from the practitioners' literature, to include the following:

1. Budgets are time-consuming and too costly to put together;
2. Budgets constrain responsiveness and flexibility and are often a barrier to change;
3. Budgets are rarely strategically focused and are often contradictory;
4. Budgets add little value, especially given the time required to prepare them;
5. Budgets concentrate on cost reduction and not value creation;
6. Budgets strengthen vertical command and control;
7. Budgets do not reflect the emerging network structures that organisations are adopting;
8. Budgets encourage 'gaming' and perverse behaviours;
9. Budgets are developed and updated too infrequently, usually annually;
10. Budgets are based on unsupported assumptions and guesswork;
11. Budgets reinforce departmental barriers rather than encourage knowledge sharing; and
12. Budgets make people feel undervalued.

Hansen *et al.* (2003) synthesizes the sources of dissatisfaction against budgeting by relating the above twelve most acknowledged weaknesses of budgeting to the popular criticisms. He posits that claims 1, 4, 9, and 10 relate to the recurring criticism that by the time budgets are used, their assumptions are typically outdated, reducing the value of the budgeting process and weakening the ability of the company to handle current competition and customer challenges. Claims 2, 3, 5, 6, and 8 relate to another common criticism that budgetary controls impose a vertical command-and-control structure, centralise decision making, stifle initiative, and focus on cost reduction rather than value creation. Finally, claims

7, 11, and 12 reflect organisational and people-related budgeting issues. Hope and Fraser (2003) in this regard argue that vertical, command-and-control, responsibility centre-focused budgetary controls are incompatible with flat, network, or value chain-based organisational designs which are required for companies to be effective in the information age, and impede empowered employees from making the best decisions, de-motivate them and reduce their entrepreneurial skills and innovation.

Submitting further on why the budgets must go, Hope and Fraser (1999c) argue that the value of the company is dependent on the calibre of staff that work in it. For a company to attract the right calibre of staff and management talents with adequate motivation to engender innovation, the company must have operational democracy. They observe that:

In a recent McKinsey survey the top three reasons why managers chose one firm over another were 'values and culture' (58%), 'freedom and autonomy' (56%) and 'exciting challenge' (51%). Budgets are well known for reinforcing the command and control culture, constraining freedom and autonomy, and stifling the very challenges that excite prospective managers. So in the battle for management talent, budgets have a lot to answer for (p.17).

Continuing, Hope and Fraser (2003) argue that the growing discontent against the budget and its inability to support innovation in organisations amid stiff competition in the information age, calls for a better planning and control system to immediately replace it. They advise that in the absence of the budget, enterprises would perform better using other financial and non-financial measures such as cost to revenue ratio, return on capital, profit margin, cash flow, time to market, customer responsiveness, quality of service index, and adopt internal external benchmarking of performance against the best internal or world standards among external and internal competitors.

How true are these criticisms?

3.1 EVALUATION OF THE CRITICISMS

Comparing the concepts and dynamics of budgeting in section 2, with the criticisms, it can be seen that the weakness of management is used against the efficiency of budget as a control mechanism. How possible in this computer age that a Manager or a Chief Executive Officer will be complaining about time consumption? It is either they cannot separate what ought to be done from how to do it or they are looking for scapegoat for their inefficiency? These inefficiencies begin with their misunderstanding of the use of standards, benchmarks and limits. They take these terms to mean static, unchangeable and writings in tablets of stones. Yet the very critics are suggesting the use of, "... financial and non-financial measures such as cost to revenue ratio, return on capital, profit margin, cash flow, time to market, customer responsiveness, quality of service index, and adopt internal external benchmarking..." (Hope and Fraser (2003). Are these not standards? Are they unsupported? Are they not projected based on current experiences and trends? Managers who make these statements (Steve, 2005), "...Yes I know it's the right thing to do ... but it isn't in the budget" "You didn't spend your budget ... how can you be so stupid? do not understand the essence of a budget, its functions and the need to adapt the principles of budgeting to his or her economic circumstance. The principles of budgeting

are beyond financial compliance and financial compliance to the detriment of strategic objectives attainment is an inefficiency of management not the budget.

A budget should be an informed document, if managers had been guessing. These inefficiencies of management results in lack of integrity, gaming and perverse behaviours. Inflexible and non-responsive budgeting techniques [line item budgeting, planned programming budgeting systems (PPBS), etc.] have long given way to flexible and responsive budgeting systems [flexible budgets, gender and market responsive budgeting systems]. The inability of management to adopt these new techniques or relinquish the old and obsolete techniques is not a reason to criticise the budget as a tool of "...repression and encourages cheating, skimming and lying and therefore the bane of corporations..." Hope and Fraser (2003). It is pertinent to ask if the Japanese Flat management structure operates without a budget? If the answer is a 'NO' as it is, then the budget remains a strategic tool in managing organisations and enterprises, innovative in a dynamic environment and does (Neely, *et al.*, 2001) not reinforce departmental barriers, rather it encourages knowledge sharing.

If according to Neely, *et al.* (2001) a budget does not reflect the emerging network structures that organisations are adopting, are rarely strategically focused and are often contradictory, the questions are, where are the emerging network structures of organisations found and planned for? What is the function of a strategic plan, subsequently broken down into tactical plans? Does it imply that a yearly budget (a tactical plan), is a contradiction of the strategic plan (a long-term budget)? If so, is it the plan that is faulty or the planner, who has decided to contradict himself or herself? A budget is not only a line item budget nor is it a PPBS or any other method or technique of budgeting; it can be adapted to suit any economic circumstance. Operating an organisation or an enterprise without a budget is to operate without a plan; that enterprise will get to nowhere but failure. The stories of success in Hope and Fraser's site (www.bbrt.org) are cases of improved budgeting practices; an abandonment of obsolete budgetary techniques and practices. It is not an instance of failing to plan but planning (budgeting) with improved methods and techniques.

4.0 IMPLICATIONS OF THE CRITICISMS ON ENTERPRISES

Based on the criticisms, one may be tempted to conclude that the end of budgeting is near and it would imply a 'planless' business environment. However, budgeting of the different forms, types and techniques is still very much alive (ICAEW/CIMA, 2004). A technique that is not suitable in one economic circumstance may be suitable in another and it does not imply that the technique is completely useless. In a survey report by Dugdale and Lyne (2010) involving 40 financial managers, a whopping 71.8% indicate that the budget is very or extremely important in the management of the affairs of companies. In a similar study conducted by Libby and Lindsay (2007) among 212 Institute of Management Accountants (IMA) members in North America confirms that over 70% of the firms receive a score value of 'good' to 'excellent' from budgeting. The respondents overwhelmingly agree that they could not manage their companies without the budget. To them budgeting is indispensable. The problem with budgets has to do with how budgets are applied and some of the roles budgets are made to

play, otherwise budgets have the potential to be extremely useful if appropriately applied (Libby and Lindsay, 2007).

This opinion agrees with the opinion expressed in the ICAEW/CIMA 2004 Report that:

...it provides an overall framework of control without which it would be impossible to manage. Large companies in particular would struggle to plan, co-ordinate and control without such a framework. But, even in small companies, a budget can provide a road map detailing where the business is, where it wants to go and how it can get there (p.2).

In a survey conducted by the Chartered Institute of Management Accountants (2009) covering companies in Europe, Asia, Middle East, Africa, Australia, North America, and other parts of the world on the use of management tools by companies, the use of budgets topped an enviable 80% or more percent. Similar result was obtained in a survey conducted in Netherlands by Elbert and Aagtje (2008). Over 73% of Netherlands companies are happy with budgeting with over 81% operating budgets and 88% indicating that budgets support their corporate strategies and are also used for motivating and for rewarding managers. Dugdale and Lyne (2010) survey of 40 respondents from UK companies confirms that all the companies' surveyed have budgets adding that:

There was little evidence that budgeting fails to meet the needs of managers in competitive environments (p.4).

In Malaysia, Mahfar and Omar (2004) survey of management accounting practices by some Malaysian companies, using 5-point assessment criteria, shows that budgeting is the most practiced management accounting technique with a mean point of 3.99 point occupying an enviable first position is the list of 28 techniques measured in the survey. In Nigeria, research results also indicate that most Nigerian companies operate with budgets. Adelegan (2001) indicates in her 1998 survey of some 55 Nigerian companies, cutting across banking, manufacturing and service industries, that about 96% of the companies use budgets.

Obiajulum and Ngoasong (2008) also recognised the prominent role the budget places in the management of companies in Nigeria so much that companies are unwilling to discuss their budget practices publicly for fear of exposing their strategies to other competitors. Ishola (2008) also notes the prominence of budget as a driver of performance. He established, in his survey of Nigerian companies in the Food and Beverages Industry in 2008, that there exist a strong relationship between budgets and corporate performance. All the companies studied operated budgets which, he noted, should be reviewed regularly to enable the budgets to be useful in supporting the dynamic economic environment.

5.0 CONCLUSION

It can be inferred from the empirical evidences, from all the continents that a budget remains the most useful tool of planning, controlling, coordinating and communicating organisational programmes and policies. It is not time consuming when the appropriate tools are used. It is not written in tablets of stone, not a guess work, does not contradict strategic objectives and does not stress financial compliance at the expense of strategic objectives attainment. To this end, the problem with budgets has to do with how budgets are applied and some of the roles budgets are made to

play, otherwise budgets have the potential to be extremely useful if appropriately applied (Libby and Lindsay, 2007). The inefficiencies of those applying the budget and their limited understanding of the principles of budgeting, should not be interpreted as a weakness of budgeting in organisational control and coordination. As a means of improvement in its application, managers should select the most appropriate budgeting techniques and budget types for their economic circumstance. Managers and organisations must, therefore, adopt appropriate budgeting techniques and budget types in their organisational and economic contexts. They should go beyond the facts and figures in the budget and the budgetary process to allow the organisation enjoy the full benefit of the tool.

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Authors wishing to have their articles published in *The Nigerian Accountant* and *ICAN Students' Journal* are advised to adopt the following guidelines:

1. Articles must be well researched on contemporary issues in the field of: **Accounting; Audit; Investigations; Forensic Accounting; Taxation and Fiscal Policy Management; Consultancy; Information Communication Technology; Insolvency and Corporate Re-engineering; Public Finance; Corporate Finance; Banking; Insurance; Manufacturing; Capital Market.**

Articles from other disciplines e.g. **Health/Medicine; Agriculture; Engineering; Education; Religion; Fashion; Construction; Oil and Gas;** etc, are welcome.

Opinion articles would also be accommodated.

2. All articles should be typed on standard A4 paper and must not exceed twenty pages in 12-point Time Roman font and double spacing.

3. The title page should include the title and author's contact information (no other page should include author's information).

4. The second page should include the title and an abstract of not more than 150 words.

5. The research paper must be properly referenced. The American Psychological Association style should be used in the following format:

a) In-text referencing: Author's name and year of work e.g. **Lucey (1997)** or **(Lucey, 1997)** at the end of sentence. Page numbers must be included for direct quotations e.g. **(Lucey, 1997, p.8)**.

b) List of references: Arranged in alphabetical order in the author-date format, e.g.

Book Reference

Lucey, T. (1997), *Management Information Systems* (8th ed.), London: Letts Educational.

Journal Article Reference

Wainer, H. (1997), *Improving Tabular Displays: With NAEP Tables as Examples and Inspirations*, *Journal of Educational and Behavioural Statistics*, 22, 1-30.

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6. Every page must be numbered.

7. Two **Hard copies** of the paper should be delivered to the **Editor, Corporate Communications & Marketing**, The Institute of Chartered Accountants of Nigeria, Plot 16, Idowu Taylor Street, Victoria Island, P.O. Box 1580, Lagos, while the **Soft copy** saved in **Microsoft Word 2007** should be forwarded to corporateaffairs@ican.org.ng, dmuyiwa@ican.org.ng and aooowolabi@ican.org.ng

Nigerian Banks and Global Ranking: The IFRS Compliance Impact

By UGOCHUKWU JOHN NWOYE, ABIAHU MARY-FIDELIS CHIDOZIEM,
JUSTINA OBIORAH and CHINONSO EKESIOMI

The study focused on the assessment of Nigerian banks' compliance level with the guidelines of IFRS towards determining the extent to which such compliance has contributed to improving the acceptability of the organisations' financial reports globally. Using the content analysis research design approach, the primary and secondary data sources were employed for the successful execution of this research work. A total of 77 disclosure items obtained from the IFRS disclosures checklist were deployed for selected financial statements assessment, and the data extracted from the 2012 – 2014 financial reports of Zenith Bank, First City Monument Bank, Guaranty Trust Bank, Diamond Bank, Access Bank, United Bank for Africa, ECO Bank, First Bank, and Fidelity Bank — all Nigeria Banks that made the world list of top 1000 banks in 2015, were subjected to multiple regression analysis using SPSS version 22 package. The outcome of the analysis showed that the level of compliance of Nigerian banks to IFRS disclosure guidelines has indeed improved the acceptability of her financial reporting practices globally. It was also discovered that significant contributions were made by the independent variables in explaining the compliance quality level of IFRS disclosure practices upheld by the Nigerian banks. It was however recommended that further research effort be intensified into this research area towards ascertaining the 'data quality' level (how reliable the disclosed financial data are) of the financial statements of these nine (9) Nigerian banks, in order to maximally complement the emphasis focus of this research work — the 'compliance quality' of studied banks' financial statements to IFRS disclosure requirements.

Keywords: Compliance, Financial Reporting Practices, Financial Statements, IFRS, IFRS Disclosure requirements.

INTRODUCTION

National and International standard setters, relevant accounting regulators/oversight bodies, portfolio holders, potential investors, prospective investors, the Accounting academics/researchers, and Analysts have all shown commendable interest in the effect of financial reporting on the general wellbeing of companies in Nigeria as going concerns.

This interest is due to the economic consequences associated with financial information (Palea, 2013), especially as it affects companies' resolve to maintain an attractive economic shape in the capital market. Indeed, financial information influences investors' behaviour with respect to portfolio selection, which in turn affects security prices and the obtaining of additional financing by a firm (Palea, 2013).

More importantly, a financial report however well articulated

and impressive it may appear can only be regarded as being useful if the accounting numbers represent the economic substance of the reporting organisation for the period under review in terms of relevance, reliability, comparability, understandability, timeliness and simplified interpretational approach.

This is even as high quality disclosure usually reduces investors' concerns about inside information (Palea, 2013) which, in most cases, is fictitiously hidden from the sight and grasp of knowledgeable investors who are ever restless at knowing and understanding the true state of their hard earned cash investments in any corporate organisation.

The extent of compliance with disclosure requirements determines the usefulness of financial reporting figures in the eyes of investors in annual reports (Zango, Kamardin and Ishak, 2015).

Nigeria's experience, especially in the financial sector over the years has continued to draw the attention of social science researchers and scholars to the banking sector; the very last resort of publicly listed companies when their dream of enhancing their equity capacity in the capital market is dashed to the mud.

The event that trailed the failure of the Nigerian banking industry between 2007 and 2013, with ten (10) banks declared insolvent and eight (8) banks' executive team members sacked by the CBN precisely in 2009, could rather be described as unfortunate. Although, the situation was viewed as a distress largely prompted and fueled by fraudulent dispositions of management of banks and the global economic meltdown that saw to the massive crumbling and collapse of trusted world economies, Nigeria's case was rather more of a bye product of false financial disclosure practices as was the case with other similar global victim companies like Enron and WorldCom. The implication was that such banks were rising in the figures published annually for investors and other users' consumption but dying every single moment in reality. Celebrated banks like Oceanic Bank, Intercontinental Bank, Afri Bank, Bank PHB, etc, went down amidst national honours/awards and international recognitions, attesting to their chameleon performances in the periods following their demise.

Although the emergence of the Asset Management Company of Nigeria (AMCON), as was with SOX Act in the post ENRON periods in USA, was an adequate thoughtful banking reform response to the salvation and resuscitation of these victim banks, some of the big names still failed to pull through despite the huge financial relief they received from the federal government through AMCON in view of the accumulated non performing loans that were rarely reported in their financial statements.

The result was the consequent failure of the investment market (The Nigerian Stock Exchange/Capital Market). The economy suffered heavily, insecurity situations set in and heightened, potential investors especially foreign investors fled the shores of the Nigerian capital market, and the market became generally tight as the cost of operating business in Nigeria became very high. The accounting profession (Accountants and Auditors) bore the blame for its failure to protect the trust reposed on them by investors towards protecting their conscience (investment) in the Nigeria market.

Responsive reactions that followed showed that the confidence of the investing Nigerians and foreigners to published financial

statements of companies in Nigeria suffered great set back, as financial information disclosed lost taste and value to users due to distrust. Willing investors, even the indigenous ones, held back their cash and opted for the international market that offered more reliable and safer investment atmosphere.

It is in this respect that Rezaee (2003) opined that capital market participants (investors and creditors inclusive) must have confidence in the financial reporting process prevalent in a given country for that country's capital market to function efficiently and effectively. However, past incidence in the Nigerian Banking industry have shown that the absence of a reliable and effectively monitored financial reporting process as obtainable in the IFRS regime in Nigeria was a source of serious threat to this confidence.

Lepădatu and Pîrnău, (2009) recalled that it was actually the financial and capital market liberalisation trends of the 1980s that brought increasing volatility in the financial markets and consequently led to the increased need for information as a means of securing financial stability across national territories. This, of course, had later turned out to become a major second challenge for the accounting profession as investors decried the prevalence of diverse financial statements that are based on different sets of national accounting standards/GAAPs across the globe. The situation made investment for investors in countries other than their own country very challenging, thus making the transfer of capital from surplus to deficit regions most difficult.

The globalisation of economic activities has resulted in an increased demand for high quality, internationally comparable financial information. In the globalised world, companies and investors operate beyond borders; they have foreign affiliations in various forms. Banks establish foreign branches and correspondent banking relationships in several countries to service the incremental dimensions of their growing portfolio of international customers (Herbert, Tsegba, Ohanele and Anyahara, 2013). The resultant outcome was that international investors began to value financial statements that are based on a single but globally accepted set of International Accounting Standards which make financial information comparable across the globe.

The intervention effort of the International Accounting Standard Board (formerly the International Accounting Standard Committee) in this respect led to the birth of a Principle Based set of high quality International Accounting Standards called International Financial Reporting Standards (IFRS) with effect from April 2001. The new global Accounting standards are believed not only to have achieved the convergence dream of coordinating all accounting practices obtainable across different national jurisdictions by using one financial reporting framework, but has also encouraged the increased use of personal judgment among Accountants and Auditors.

Successive reforms became the case in Nigeria in her bid to restore confidence in the Nigeria capital market and her companies' financial reports. One of such most successful reforms was the mandatory adoption of the new International Financial Reporting Standards (IFRS) in January 1, 2012. Although a roadmap preceding the adoption phases was already made public by the federal government in July 2010, some notable commercial banks with multinational interest in other countries in their bid to reassure the investing public of their embrace of sound corporate governance in line with international best practice and regain

her confidence in the midst of rising financial crisis, resorted to voluntary adherence to the guidelines of the new International Financial Reporting Standards (IFRS) in preparing her financial reports with effect from 2010 reporting year.

The International Financial Reporting Standards (IFRS), in the words of Tendeloo and Vanstraelen (2005) cited in Abata (2015) a, is a body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and the enhancement of public confidence in financial reporting. These qualities all attribute to one thing — full disclosure and/or fair representation.

The full disclosure process remains committed to ensuring that the integrity of data of financial reports submitted to the supervisory authorities in Nigeria e.g Central Bank of Nigeria, Security Exchange Commission, and Nigerian Stock Exchange, and the public, to enable them ascertain the true financial position and performance of deposit money banks (Adeyemi and Asaolu, 2013) is upheld in high esteem.

Armstrong *et al* (2007) cited in Abata (2015) buttressed that the increasing participation of countries in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders, has indeed brought about the adoption of IFRS by both the developed and developing countries, like Nigeria.

This may have strengthened Abata (2015)b resolve to opine that companies' non-compliance with IFRS legal and professional framework may portend greater challenge for such companies especially in the banking industry with respect to her performances and liquidity stability, as they (banks) might not be able to partake in the new and emerging business opportunities, should they fail to comply with IFRS guidelines.

The question that arises at this juncture is to what extent has the adoption and compliance of Nigeria banks to the guidelines of IFRS enhanced the quality of her financial reports and its global acceptability seeing the emergence of nine (9) Nigerian banks in the global list of 1000 world banks during the recent (2015) edition ranking of banks in the world?

OBJECTIVES

It is against this backdrop that this study intends to:

1. Assess the extent to which the quality of compliance of Nigerian banks to IFRS disclosure guidelines has improved the acceptability of her financial reporting practices globally.
2. Determine whether any significant contribution was made by the independent variables in explaining the quality level of IFRS disclosures practices upheld by the selected banks.

RESEARCH QUESTION

To what extent has the quality of compliance of Nigerian banks to IFRS disclosure guidelines improved the acceptability of her financial reporting practices globally?

What significant contribution was made by the independent variables in explaining the quality level of IFRS disclosures

practices upheld by the selected banks?

HYPOTHESES

1. H_0 : The quality of compliance of Nigerian banks to IFRS disclosure guidelines has not improved the acceptability of her financial reporting practices globally.
2. H_0 : No significant contributions was made by the independent variables in explaining the quality level of IFRS disclosures practices upheld by the banks.

LITERATURE REVIEW

Conceptual Framework

Prior to the advent of conceptual frameworks, financial reporting were based on vague principles and conventions such as true and fair view, prudence, stewardship, conservatism, matching and earnings process, rather than on a robust set of inter-related concepts reflecting underlying economic phenomena (McCahey and McGregor, 2013).

The hallmark of financial reporting globally is enshrined in IASB's conceptual framework. Pelea (2013) reemphasising on the very main objective of financial reporting, stressed on the need for published financial statements to provide information that are quite useful to investors, creditors, and other relevant stakeholders in making investment, credit, and similar resource allocation decisions. According to Adeyemi and Asaolu (2013), even the disclosure principle in accounting requires that financial statements present the most useful amount of relevant information that is necessary and not to be misleading.

Evidently, consumers of financial information and users of financial reports may vary accordingly in any given market/ jurisdiction, IASB emphasis seem to rest more with the information needs of key players/participants in the capital markets. Investors have, as a result, been considered the most unique utilisers of such information in financial reports, given the possible challenges of obtaining the said information directly from the firm.

Financial reporting quality has thus become a major discuss given the widespread acceptance and adoption of IASB's International Financial Reporting Standards (IFRS) across the globe. But the question that bothers users of financial information the more in Nigeria is whether the published financial statements usually made public really meet the qualitative standards expected of them to possess?

Affirmatively, two primary qualitative characteristics of financial information that are disclosed in financial statements usually stands out, and these are: Relevance and Faithful representation. It is a common belief in accounting practice that Information disclosed in financial reports should be relevant to users of financial statements during decision making process. Such relevant information is believed to possess either confirmatory or predictive value. However, faithful representation tends to emphasise more on the truthfulness of such financial information so disclosed by the management of the company. Does the information disclosed tell the true financial story of what transpired in the company for the year under review? This means that, with faithful representation, the

information disclosed by the company's management is expected to reflect the real-world economic phenomena/status of the company which the financial information purports to represent. Relevance and faithful representation make financial statements useful to the reader.

However, real world reactions has shown that much of that focus has always been on auditors and audit quality but the ability to produce financial reports that are valuable and high quality requires more than just a quality audit. The financial reporting supply chain contains all the parties that provide input to the financial reporting process, as well as various stakeholders in the process. These parties, setting aside personal interest, need to work together to produce a quality financial report (Hicks, 2014).

Full Disclosure and High Quality Information

The banking sector, like every other segments of the financial system thrives on trust and confidence (CBN's Disclosure Requirement, 2016). The full disclosure option will assist all stakeholders to evaluate the true and fair positions of the banks and confidently take informed decisions about them. Consequently, the confidence of stakeholders will be a major selling point for the banks (CBN's Disclosure Requirement, 2016).

Full disclosure requirements are the mandatory financial, operational and management information, which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. The process has to do with ensuring the integrity of data in the rendition of reports to the supervisory authority and the public in order to enable them ascertain the true financial position and performance of deposit money banks (CBN's Disclosure Requirement, accessed in March 2016).

With full disclosures, it is possible to identify who the banks are actually reaching out to, and who remains outside of the banking system.

The provision of adequate information enhances the integrity of banks and reduces the reputational risks that could lead to loss of confidence and patronage. It will also help to reduce market uncertainty and limit the risk of unwarranted contagion (CBN's Disclosure Requirement, accessed in March, 2016).

Rezaee (2003) remains focused in stressing that Quality financial reports, including reliable financial statements free of material misstatements due to errors and fraud, can be achieved when there is a well-balanced, functioning system of corporate governance.

Companies need to invest in their internal control systems by developing and maintaining the controls and the documentation, and ensure that the risks the controls are put in place to manage are duly considered as well as the objectives of the controls themselves. While auditors can contribute in helping companies assess their internal controls, the focus on the value of the integrity of data and the efficiency of processes has to come from the board and management to deliver quality (Hicks, 2014).

Corporate governance is a mechanism of managing, directing, and monitoring a corporation with the goal of creating shareholder value while protecting the interests of other stakeholders (such as creditors, employees and customers), especially in the area of quality information disclosure and financial reporting.

The drive for financial reporting quality must be part of the

company's culture, with clear messages and goals being driven from the board down (Hicks, 2014).

Theoretical Framework

The very brain behind transparency and full disclosure in financial reporting is accountability. Accountability simply entails making available to users, reports of all vital information related to and/or that is capable of explaining all events (financial activities inclusive) that transpired in a company within a given period of time. This implies that for a financial statement to meet this expectation and satisfy the endless desires of investors towards understanding the true productive status of their investment in a company, high quality financial information must be given commendable consideration.

By high quality information, Elorrieta (2002) meant first, information that is comparable and comprehensive, which is prepared under common financial reporting principles such as IFRS guidelines, with full disclosure. Secondly, fair information which is the information that represents the economic reality of the company during the period under review with balanced discussion of risks, and lastly, the information that results from good governance which must be reliable having been audited to a high standard.

Empirical Framework

Zango, Kamardin, & Ishak (2015) examined the level of compliance obtainable in the financial reporting of fourteen listed Nigerian banks in line with the provisions of IFRS 7 for the years 2012 and 2013. Using a Mandatory Disclosure Index (MDI) measurement technique, it was observed that some improvements were made by most of the banks in their compliance with the requirements of IFRS 7 in 2013 compared to 2012. This, they attributed to the possible prevalence of additional enlightenment programmes that have boosted the knowledge of IFRS among bankers through trainings, conferences, seminars and workshops (national & international) by boards of directors, management and line staff of the banks.

Abata (2015)b surveyed fifty (50) employees of KPMG (Auditing Division) using a five point Likert scale structured questionnaire with the intent of ascertaining comparatively the contributory effect of IFRS and the local GAAP to financial reporting quality in Nigeria. His findings, after subjecting the respondents views to the Chi square statistical tool analysis, showed that a greater percentage of the respondents believe that IFRS provides better information for regulators than the local GAAP, thereby increasing the transparency and comparability of financial statements in Nigeria and hoisting best practice among corporate organisations in Nigeria.

Yahaya, Yusuf & Dania (2015) examined the effects of IFRS adoption on the 2004 – 2013 financial statements of 21 Nigeria Banks towards ascertaining the impact of the new accounting regulatory framework compared to financial reporting practices subject to the Nigeria GAAP. Using the Logistic regression statistical tool, they found out that the adoption of IFRS has positively impacted on the overall financial performance and position of Nigeria banks. They equally noted that the adoption of IFRS is likely to introduce volatility in income statement and statement of financial position figures of Nigeria banks, given the

fair value perspective of IFRS.

Umobong and Akan (2015), in their studies, focused on the differences in accounting quality before and after the IFRS adoption of listed manufacturing firms in Nigeria. Using Ordinary Least Square (OLS) Regression statistical tool, a 5 year (2009 – 2013) financial reporting practices of 11 publicly listed Nigeria Cement and Brewery companies were assessed in the study. Based on the result of the analysis, they found out that IFRS adoption has not really improved accounting quality of listed cement and breweries companies in Nigeria. Supportive reasons presented by them also showed that the degree of earnings management prevalent in the companies studied did not decline in the post-IFRS period. Earnings and book values are less value relevant in the post-IFRS period compared to the pre-IFRS period. More so, timely loss recognition was insignificantly larger in the post-IFRS period compared to the pre-IFRS period.

METHODOLOGY AND DATA ANALYSIS

The study covered three (3) years of IFRS Based financial reporting of Nine (9) Nigerian banks that made the list of 1000 World banks in the 2015 global ranking of banks. These comprised Zenith, Ecobank, First Bank, Guaranty Trust Bank, Access Bank, Diamond Bank, United Bank for Africa, Fidelity Bank, and First City Monument Bank made the list. As a result, all IFRS based financial statements of these banks for the years 2012 (IFRS adoption and transition date in Nigeria) to 2014 reporting year, were purposively sampled and selected for content analyses purpose. As a result, the content analyses research design was adopted for this study for a comprehensive assessment of the selected banks’ disclosure practices during the years covered

using the IFRS Disclosures checklist as a guideline.

To this end, a content analysis score chart comprising seventy seven (77) key disclosure items with 4-point rating scores as Very Strong Disclosure (VSD) scored as 4, Strong Disclosure (SD) scored as 3, Fair Disclosure (FD) scored as 2, and Weak Disclosure (WD) scored as 1, were deployed for the careful assessment and scoring of the disclosure quality of the selected banks’ financial reports (2012 – 2014).

Extracted data based on scores made from the twenty seven (27) financial statements- nine banks with three years of IFRS financial statements each, were tested with aid of the multiple regression analytical tool using SPSS version 22. Below are the result outputs of the analyses carried out.

Model Specification:

$$FRQD = \alpha + \beta_1 DFPI + \beta_2 DCII + \beta_3 DCFI + \beta_4 DCEI + \mu$$

Where:

FRQD = Financial Reporting Quality Disclosure

DFPI = Disclosures on Financial Position Items

DCII = Disclosures on Comprehensive Income Items

DCFI = Disclosures on Cash Flow Items

DCEI = Disclosures on Changes on Equity Items

α is constant,

β_1 to β_4 are the coefficients of the independent variables,

μ is the error term.

Hypothesis One

H_o : The quality of compliance of Nigerian banks to IFRS disclosure guidelines has not improved the acceptability of her financial reporting practices globally.

Table 1:
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923 ^a	.853	.826	1.59098

a. Predictors: (Constant), DCEI, DFPI, DCFI, DCII

Source: SPSS Ver. 22

Table 2:
ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	322.313	4	80.578	31.834	.000 ^b
	Residual	55.687	22	2.531		
	Total	378.000	26			

a. Dependent Variable: DV

b. Predictors: (Constant), DCEI, DFPI, DCFI, DCII

Source: SPSS Ver. 22

Table 3:
Coefficients^a

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-86.985	17.414		-4.995	.000**
	DFPI	17.227	1.578	.932	10.918	.000**
	DCII	7.700	1.565	.651	6.237	.029*
	DCFI	16.107	1.593	.503	13.029	.047*
	DCEI	4.248	1.034	.441	3.207	.040*

a. Dependent Variable: DV

Source: SPSS Ver. 22

Result Interpretation and Discussion

From the *Model Summary Table*, R² which measures the overall goodness of fit of the regression equation recorded a value of .853 (Adjusted R² value .826). This implies that the independent variables (Disclosures on Financial Position Items, Disclosures on Comprehensive Income Items, Disclosures on Changes on Equity Items, and Disclosures on Changes on Equity Items) in the model explain 85.3% variation in the dependent variable (Financial Reporting Quality Disclosure).

Reviewing the outcome of the *ANOVA Table* above, it could be seen that a p value less than .05 [.000], F-value is 31.834 (Table value of F 2.82) is obtainable. From this, we confirm that our model is statistically significant. Applying the following decision rule: *accept the null hypothesis if F-value of 31.83 is less than the F-Table value (2.82), otherwise reject and accept the alternate hypothesis*, since the 31.834 is greater, we accept the alternate hypothesis, and this means that the quality of compliance of Nigerian banks to IFRS disclosure guidelines has indeed improved the acceptability of her financial reporting practices globally.

Hypothesis Two

H₀: No significant contribution was made by the independent variables in explaining the quality level of IFRS disclosures practices upheld by the Nigeria banks.

Result Interpretation and Discussion

The significance of the independent variables in explaining the variation in the dependent variable (Financial Reporting Quality Disclosure) is shown in the *Coefficients Table* also above.

The beta values of the four independent variables (.932, .651, .503 and .441) clearly shows that DFPI, DCII, DCFI, and DCEI all made strong contributions in explaining the dependent variable. This implies that disclosures on financial position index (DFPI) made the strongest unique contribution in explaining the dependent variable — financial reporting disclosure quality and

practices of the nine Nigeria banks covered in this study. This was followed by Disclosures on Comprehensive Income Index (DCII), Disclosures on Cash Flow Index (DCFI) and Disclosures on Changes in Equity Index (DCEI).

Further look at the Sig. values of these independent variables (IVs) also showed that all IVs made statistical significant unique contribution in predicting the dependent variable, seeing that their Sig. values are less than 0.05 (DFPI, DCII, DCFI and DCEI were statistically significant with P-values less than .05-.000, .029, .047, .040). These show that significant contributions were made by the independent variables in explaining the quality level of IFRS disclosures practices upheld by the Nigeria banks.

Conclusion and Recommendations

The financial crisis has shown how difficult it is to retain investor confidence when investors are uncertain about the information available to them. As countries adopt a single set of high quality, global accounting and financial reporting standards, there should be greater global consistency and transparency (Ironkwe, Ordu and Antonio, 2015).

There is every need for organisations to maintain a high level of accounting system that readily comply with the guidelines of IFRS towards assuring users of published financial information that the accounting numbers made public by the companies are not only disclosed in line with the provisions of the International Accounting Standards but also are reliable and transparent enough for genuine corporate performance evaluation and investors decision making purposes. This view is equally upheld by Umobong and Akan (2015) who stressed that such figures as disclosed in the financial statement of Nigeria publicly listed companies should be a feasible representation of the facts that transpired within the organisation in the period(s) under review, and not the mere wishes of the management. Hence, it is recommended that further research effort be intensified into this research arena towards ascertaining the 'data quality' level (how

reliable the data are) of the financial information disclosed by these nine (9) Nigerian banks, in order to maximally complement the emphasis focus of this research work — the ‘disclosure quality’ of the financial statements studied.

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Annual Reports and Account 2012 – 2014: ECO Bank Nigeria Plc.

Annual Reports and Account 2012 – 2014: Fidelity Bank Nigeria Plc.

APPENDIX

CONTENT ANALYSIS SCORE CHART

Name of Bank _____

Definition of Rating Scales

- Very Strong Disclosure (VSD) = 4,
- Strong Disclosure (SD) = 3,
- Fair Disclosure (FD) = 2,
- Weak Disclosure (WD) = 1

Scoring Guidelines

> **Score 4** if IFRS disclosure requirement was completely complied with as pronounced by the IFRS guideline.

> **Score 3** if majority of the IFRS disclosure requirement are complied with but not all.

> **Score 2** if compliance was mentioned as a statement but not practically effected.

> **Score 1** if no compliance was made at all to the IFRS disclosure requirements.

CONTENT ANALYSES SCORE CHART

S/N	DISCLOSURE REQUIREMENTS	YEAR_____				
		VSD (4)	SD (3)	FD (2)	WD (1)	TOTAL
1	Statement of financial position.					
2.	Statement of comprehensive income.					
3.	Statement of other comprehensive income.					
4.	Statement of changes in equity.					
5	Statement of cash flows.					
6	Notes and Preceding year comparative information.					
7.	Name of reporting entity and date of reporting period.					
8.	Presentation currency.					
9.	Any change in the functional currency.					
10.	Statement of compliance with IFRSs.					
11.	If reporting period is more or less than one year.					
12.	Basis of preparation of the financial statements and specific accounting policies used.					
13.	Present earnings per share for every period for which an income statement is presented.					
14.	Supporting information for items presented.					
15.	Contingent liabilities, unrecognised contractual commitments, and non-financial disclosures.					
16.	A minimum of two statements of Financial Position, Comprehensive Income, Cash Flow, Changes in Equity, and Notes.					
17.	Narrative information provided in the preceding period(s) that is relevant in the current period, e.g. state of any legal dispute.					
18.	If any third statement of financial position, etc, and its date as at the beginning of the preceding period is presented.					
19.	If any changes in the presentation or classification of items in financial statements disclosed. If reasons are given.					
20.	Domicile and legal form of the entity, and date and country of incorporation.					
21.	Address of registered office.					
22.	Description of the nature of entity's operations.					
23.	Name of parent entity.					
24.	Measurement basis used in preparing the financial statements.					
25.	Other accounting policies used.					
26.	The judgments that management has made in applying the entity's accounting policies.					
27.	Assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period.					
28.	Foreign currency transactions and translation.					
29.	Consolidation principles as it affect subsidiaries and associates.					
30.	Property, plant and equipment – measurement basis, depreciation method, the useful lives or the depreciation rates used.					

31.	Investment property – whether entity applies the fair value model or the cost model.					
32.	Criteria used by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.					
33.	The extent to which the fair value of investment property is based on a valuation by an independent value.					
34.	Intangible assets with finite useful lives, the amortisation period and amortisation methods used, and for the infinite, whether they have been tested for impairment annually.					
35.	Intangible assets with finite useful lives, the amortisation period and amortisation methods used, and for the infinite, whether they have been tested for impairment annually.					
36.	Treatment of research costs and the basis for capitalisation of development costs and website development costs.					
37.	Accounting policies and methods, and criteria for recognition and the basis of measurement adopted for financial assets, financial liability and equity instrument.					
38.	The basis on which income and expenses arising from financial assets and financial liabilities are recognised and measured.					
39.	Criteria used for impairing and writing off financial assets.					
40.	Disclosures on Leases, Inventories, Employee Benefit Costs, etc.					
41.	Disclosures on Provisions, Share-based Payments, Taxes including Deferred Taxes, Revenue Recognition, Government Grants, etc.					
42.	Definition of cash and cash equivalents, Segment reporting.					
43.	If a change in accounting policy is made on the adoption of an IFRS.					
44.	Initial application of a relevant standard or interpretation existed.					
45.	Title of the standard or interpretation is disclosed.					
46.	The change in accounting policy is made in accordance with its transitional provisions.					
47.	Profit or Loss, and comprehensive income for the period attributable to: (i) Non-controlling interests; and (ii) Owners of the parent.					
48.	Disclosed revenue; finance costs; share of the profit or loss of associates, tax expense.					
49.	An opening IFRS statement of financial position at the date of transition to IFRSs.					
50.	Disclose revenue rising from the sale of goods; the rendering of services; and interest; royalties; and dividends.					
51.	Description of the nature and purpose of each reserve within shareholders' equity, including restrictions on the distribution of the revaluation reserves.					
52.	The number of shares issued and fully paid, and issued but not fully paid.					
53.	Shares in the entity held by the entity itself or by the entity's subsidiaries or associates.					
54.	Disclosed the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period.					
55.	<i>Include in the statement of financial position</i> – property, plant and equipment; investment property; intangible assets; financial assets, investments accounted for using the equity method, biological assets; inventories; trade and other receivables; cash and cash equivalents; trade and other payables; provisions; financial liabilities, etc.					

56.	Disclosed liabilities and assets for current tax, deferred tax liabilities and deferred tax assets, non-controlling interests.					
57.	Disclosed issued capital and reserves attributable to owners of the parent.					
58.	Disclosed the amount of income from continuing operations and from discontinued operations attributable to owners of the parent.					
59.	Disclosed the carrying amount of inventories carried at fair value less costs to sell.					
60.	Disclosed receivables in manner appropriate to entity's operation viz: trade receivables, receivables from subsidiaries, receivables from related parties, other receivables; pre-payments.					
61.	Present deferred tax assets and deferred tax liabilities separately on the face of the balance sheet.					
62.	Present current income tax assets and liabilities separately on the face of the balance sheet.					
63.	Classify deferred tax assets (liabilities) as non-current assets (liabilities) if a distinction between current and non-current assets and liabilities is made on the face of the balance sheet.					
64.	Disclose payables in a manner appropriate to the entity's operations viz: trade payables; payables to subsidiaries, payables to related parties, other payables; accruals; and deferred income.					
65.	Classify cash flows into three activities: operating, investing and financing activities.					
66.	Cash flows arising from taxes on income: (a) disclose taxes paid; (b) classify taxes paid as cash flows from operating activities unless specifically identified with financing and investing activities.					
67.	For cash flows from interest and dividends, disclose: (a) interest received; (b) interest paid; (c) Dividends received; and (d) dividends paid.					
68.	Disclose the components of cash and cash equivalents.					
69.	Disclose reconciliation of amounts in cash flow statement with cash and cash equivalents in the balance sheet.					
70.	Disclose either on the face of the balance sheet or in the notes the carrying amounts of held-to-maturity investments.					
71.	Disclose either on the face of the balance sheet or in the notes the carrying amounts of loans and receivables.					
72.	Disclose either on the face of the balance sheet or in the notes the carrying amounts of available-for-sale financial assets.					
73.	Present basic and diluted earnings per share, even if the amounts are negative (a loss per share).					
74.	Disclose separately the major classes of assets and liabilities classified as held for sale either on the face of the balance sheet or in the notes to the financial statements.					
75.	Disclose: (a) the nature and extent of government grants recognised.					
76.	Disclose the borrowings classified between current and noncurrent portions.					
77.	Disclose the net carrying amount for financial lease at the balance sheet date.					

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The Effect of Corporate Governance on Bank's Financial Performance in Nigeria

By **ALEM I.E. BELLO** and **EMEKA E. ENE**

In developing economies, the banking sector, among other sectors, has witnessed several cases of collapses or failure. In Nigeria for instance, weak corporate governance has been at the core of all recent episodes of crisis in the banking system. This project empirically investigates the effect of corporate governance on financial performance of banks in Nigeria. The effects of the relative size of non-executive directors and the board size on Return On Investment (ROI) of a sample of 10 selected banks were investigated. Secondary data were sourced from the Nigeria Stock Exchange fact books issued for the years 2004–2013. The ordinary least square regression technique aided by SPSS 21 was employed in estimating the relationship between the selected variables. The study revealed that the relationship between corporate governance and bank performance in Nigeria is quite significant as a unit change in the board size and the relative size of non-executive directors increases the return on assets. The study therefore concludes that proper structuring of the stakeholders in the corporate governance team is a panacea to the perennial banking crisis experienced in Nigeria. It was recommended among others that banking sector should engage in strategic training of board members and senior bank managers especially in areas that promote internal control effectiveness, board structure and independence and in banking ethics.

Keywords: Corporate Governance, Financial Performance, Board Size, Banking System.

1.0 INTRODUCTION

The concept of corporate governance of banks and every large firm has been a priority on the policy agenda in developed market economies for over a decade. The concept is gradually warming itself as a priority in the African continent (Uwuigbe, 2011). The etymology of corporate governance in Nigeria cannot be divorced from the Nigerian Company Law. Before the expression “corporate governance” became popular, Company Law recognised and still recognises two organs of a company: first is the company’s board of directors and secondly, the company in general meeting. The concept of corporate governance explains how a company should be run by those put in charge of the company’s affairs. Therefore, the centrality of the board of directors in the institutionalisation of the tenets of sound corporate governance in every company cannot be denied. The prominence of board of directors in corporate governance is evident in model definitions of corporate governance which in a nutshell regards corporate governance as the processes and structures by which the business and affairs of an institution are directed and managed in order to improve long-term shareholder value by enhancing corporate

performance and accountability, while taking into account the interest of other stakeholders. (Tricker, 2009).

In developing economies, the banking sector among other sectors has witnessed several cases of collapses or failure, of which some Nigerian examples include: Savannah Bank Plc, Society Generale Bank Ltd and recently acquired Oceanic Bank, Bank of the North, AfriBank, Mainstream Bank. With the failure in Nigeria banks and the activities of some of the bank operators, there are concerns on the need to strengthen corporate governance in banks. This will boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004).

In Nigeria, the issue of corporate governance has been on the front burner status by all sectors of the economy. This is in recognition of the failure of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006). Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster great corporate performance. Corporate governance can therefore be said to refer to the processes and structures by which the businesses and affairs of institutions are directed and managed in order to improve long term shareholders' value by enhancing corporate performance and accountability while taking into account the interest of other stakeholders (Tricker, 2009).

In recent times many country leaders, globally, have increased concern over corporate governance due to the increase of reported cases of frauds, insider trading, agency conflicts among other corporations saga (Enobakhare, 2010). Corporate failure has been recently witnessed in both developed and developing countries with the reported cases of the East Asia crises of 1997/98, the collapse of Enron in 2001 and WorldCom in 2002, (Inyang, 2009) and the just ended global financial crisis of 2007/8. The crises emanated from the poor governance practices from the financial sector (the mortgage market). Since mortgage market was the mother of the crisis, this has triggered the world leaders to enact some laws, which increase banks governance. The World Bank is currently helping many economies in undertaking banking sector reformation and restructuring. This exercise will ease, reduce or eliminate some fatal global macroeconomic troubles which have emanated from poor governance of large financial and non-financial institutions (Zaharia, Tudorescu & Aharia, 2010).

This study seeks to explore the relationship between corporate governance and financial performance of the banking sector in Nigeria as its main objective. Next to the introduction of the paper, the literature review is presented; in the third section, the methodology adopted in the research is discussed; the data analysis is presented in the fourth section of the paper while conclusion and recommendations are presented in the last section.

2.0 LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields including: economics, accountancy, finance, among others (Cadbury, 2002). It is therefore essential that a comprehensive framework be codified in the accounting structure of any organisation. In any

organisation, corporate governance is one of the several key factors that determine the health of the system and its ability to survive economic shocks. The health of the organisation depends largely on the underlying soundness of its individual components and the connections between them. Levine (1997) emphasised the importance of corporate governance of banks in developing economies and observed that: first, banks have an overwhelmingly dominant position in the financial system of a developing economy and are extremely important engines of economic growth; second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for majority of firms; third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy's savings.

Banking supervision cannot function if there is no existence of what Hettes (2002) calls "correct corporate governance" since experience emphasises the need for an appropriate level of responsibility, control and balance of competences in each bank. Hettes explained further on this by observing that correct corporate governance simplifies the work of banking supervision and contributes towards corporation between the management of a bank and the banking supervision authority. Bebeji, Mohammed and Tanko (2015) also emphasised the importance of corporate governance in banking structure. They observed that corporate governance has significant effect on the performance of banks in Nigeria. They realised that, while some corporate governance characteristics such as board composition positively influenced the performance of banks in Nigeria, other characteristics such as board size negatively affect the performance of banks in Nigeria. Several events are therefore responsible for the heightened interest in corporate governance especially in both developed and developing countries. This concept of corporate governance of banks and every large firm have been a priority on the policy agenda in developed market economies for over a decade. This section is divided into three major headings with their various subs-headings. The three headings are the theoretical, conceptual and empirical review of literature.

The concept of corporate governance takes its lead from a Greek word "kyberman" meaning to steer, guide and govern; it then revolved to Latin, where it was known as "gubernare" and to French as "governor". To be precise, corporate governance is the process of decisions making and the process by which decisions may be implemented, hence forth, it has much a different meaning to different organisations (Abu-Tapanjeh, 2008).

In recent years, corporate governance was seen as a system of checks and balances between/among the board, management and investors so as to produce an efficiently functioning corporation, ideally geared to produce long-term value (Brancato and Plath, 2003). Jayashree (2006) defines it thus: "Corporate Governance when used in the context of business organisation is a system of making directors accountable to shareholders for effective management of the companies in the best interest of the company and the shareholders along with concern for ethics and values. It is the management of companies through the board of directors that hinges on complete transparency, integrity and accountability of management." From these definitions, it can be deduced that corporate governance is a system by which

organisations are managed and controlled. It targets transparency and accountability in an organisation's processes with the aim of fulfilling responsibilities to shareholders, employees, consumers and the community it resides.

On the other hand, financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenues from operations, operating income or cash flow from operations can be used, as well as total unit sale. Bank performance simply refers to how well a bank is doing especially in reference to its profitability index and income statement. To understand how well a bank is doing, we need to start by looking at a bank's income statement, the description of the sources of income and expenses that affect the bank's profitability. The bank's profitability can also be seen as a measure of its return on asset (ROA).

There are many and conflicting empirical findings with respect to board size influence. For instance, Pi and Timme (1993) examined the role of the chairman of a bank's board and found that cost efficiency and return on assets are lower for banks that have the same person serving as chairman of the board and chief executive officer (CEO) than for banks without such duality. They also found out that the proportion of insiders/outside directors on the board of directors has a negatively significant impact on bank performance. Prowse (1997), among others, examined the power of boards of banks vis-à-vis boards of non-financial firms. He found that much of the monitoring responsibility of banks falls on the regulators, not boards. Kyereboah-Coleman and Biekpe (2006) examined how corporate governance indicators such as board size, board composition and CEO duality impact financing decisions of 47 firms listed on the Nairobi Stock Exchange. They found that firms with larger board sizes employ more debt and the independence of a board correlates negatively and significantly with short-term debts. When a CEO doubles as board chairperson, less debt is employed.

Uwuigbe (2011) examined Corporate Governance and Financial Performance of Banks in Nigeria. The variables that were used for corporate governance are board size, the proportion of non-executive directors, directors' equity interest and corporate governance disclosure index. The objective of this research was to examine the relationships that exist between governance mechanisms and financial performance in the Nigerian consolidated banks. Variables used for the financial performance of the banks also include the accounting measure of performance; return on equity (ROE) and return on asset (ROA). Primarily, panel data regression analysis methodology was adopted while content analysis technique, regression analysis and the t-test statistics were undertaken in the analysis. The study therefore observed that a negative but significant relationship exists between board size, board composition and the financial performance of these banks, while a positive and significant relationship was also noticed between directors' equity interest, level of governance disclosure and performance.

Adeusi, Akeke, Aribaba & Adebisi (2013) in their work Corporate Governance and Firm Financial Performance using a sample of 10 selected banks' annual reports covering 2005–2010, examined the relationship between corporate governance and performance in Nigeria banking sector. The main objective of the study was to determine if ownership and board size matter in financial performance. They used return on asset, board size, board composition that is, number of executive director and number of non-executive director. The result indicates that improved performance of the banking sector is not dependent on increasing the number of executive directors and board composition. It shows further that when there are more external board members; performance of banks tends to be worse. The study concludes a need for increase in board size and decrease in board composition as measured by the ratio of outside directors to the total number of directors in order to increase the bank performance.

Akingunola, Adedipe & Olusegun (2015) examined corporate governance and bank's performance in Nigeria. Their main objective was to evaluate the impact of corporate governance and bank's performance in Nigeria (post-bank's consolidation). They used earnings, return on equity and return on assets as variables. They employed the ordinary least squares regression analysis to their analyse data. Their result shows that Bank deposit mobilised and credit created over these periods increase over the years but were more positively related to bank performance during the period of consolidation but were not significant, while managerial traits of managers employed in the bank seems to be the major determinant factors of bank performance when they are positively embraced. They concluded that to minimize financial and economic crime in the system, banks must embrace fiduciary duty which include transparency, honesty and fairness (corporate governance codes) in dealing with all its stakeholders.

Ajala, Amuda and Arulogun (2012) examined the effects of corporate governance on the performance of Nigerian banking sector with the aim of observing the impact corporate governance has on firm's performance. The secondary source of data was sought from published annual reports of the quoted banks. In examining the level of corporate governance disclosure of the sampled banks, a disclosure index was developed and guided by the Central Bank of Nigeria code of governance. The Pearson Correlation and the regression analysis were used to find out whether there is a relationship between the corporate governance variables and firms performance. The study revealed that a negative but significant relationship exists between board size and the financial performance of these banks while a positive and significant relationship was also observed between directors' equity interest, level of corporate governance disclosure index and performance of the sampled banks. Their study recommends that efforts to improve corporate governance should focus on the value of the stock ownership of board members and that steps should be taken for mandatory compliance with the code of corporate governance.

Literature review reveals that existing studies on corporate governance in banking sector focused on a single aspect of governance, such as the role of directors or that of shareholders while omitting other factors such as code of ethics, effective hierarchical structure, etc., and interactions that may be

Table 1:
SUMMARY OF ANNUAL REPORTS OF THE TEN (10) SELECTED BANKS

Bank	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
FIRST BANK										
Board Size	15	15	15	15	15	16	16	8	8	8
Board Comp	8	8	7	7	8	9	9	5	5	4
Assets ₦'000	201,667,000	377,496,000	762,811,000	1,165,461,000	1,667,422,000	1,772,456,000	1,957,258,000	2,463,543,000	270,977,000	311,811,000
PAT ₦'000	10,793,000	12,184,000	18,355,000	30,473,000	35,074,000	1,275,000	26,936,000	47,462,000	76,801,000	70,631,000
GUARANTY TRUST BANK										
Board Size	14	14	14	11	11	14	14	14	14	14
Board Comp	8	9	8	6	6	7	7	10	7	7
Assets ₦'000	119,698,240	167,897,704	305,080,565	478,369,179	920,493,467	1,032,954,608	1,083,304,116	1,523,527,545	1,620,317,223	1,904,366
PAT ₦'000	4,056,557	5,330,789	8,677,506	13,013,146	28,089,287	30,777,257	38,411,612	51,653,251	85,263,826	86,546
UNITED BANK OF AFRICA										
Board Size	17	17	14	17	17	20	19	21	21	20
Board Comp	10	10	6	10	12	10	9	11	11	10
Assets ₦'000	208,806,000	248,928,000	851,241,000	1,102,348,000	1,520,091,000	1,400,879,000	1,440,724,000	1,666,053,000	1,933,065,000	2,217,417,000
PAT ₦'000	4,185,000	4,653,000	11,468,000	19,831,000	40,002,000	12,889,000	1,793,000	-3,754,000	50,909,000	55,650,000
UNION BANK										
Board Size	7	7	7	7	14	14	7	7	8	8
Board Comp	4	4	3	4	7	5	3	3	4	4
Assets ₦'000	367,798,000	398,271,000	517,564,000	619,800,000	907,074,000	1,106,779,000	714,018,000	932,836,000	886,468,000	851,294,000
PAT ₦'000	7,750,000	9,375,000	10,036,000	12,126,000	24,737,000	-71,052,000	2,158,000	3,943,000	3,914,000	4,750,000
ZENITH BANK										
Board Size	11	11	11	13	14	15	13	15	15	15
Board Comp	6	6	7	6	7	9	6	8	8	8
Assets ₦'000	193,321,000	332,885,000	610,768,000	883,941,000	1,680,302,000	1,578,912,000	1,798,679,000	2,169,073,000	2,436,886,000	2,878,693,000
PAT ₦'000	5,191,000	7,156,000	11,489,000	17,509,000	46,525,000	21,933,000	32,305,000	41,301,000	95,803,000	83,414,000
FIDELITY BANK										
Board Size	14	14	14	8	8	8	8	19	17	17
Board Comp	9	8	9	4	4	4	3	13	10	9
Assets ₦'000	27,552,000	25,953,000	119,956,000	217,144,465	533,122,233	434,053,000	497,453,000	737,732,000	914,360,000	1,081,217,000
PAT ₦'000	914,000	1,237,000	3,162,000	4,160,007	12,987,570	1,414,000	5,828,000	3,911,000	17,924,000	7,721,000
ACCESS BANK										
Board Size	8	9	9	12	12	14	13	14	16	20
Board Comp	0	1	3	7	7	7	6	7	8	7
Assets ₦'000	31,341,507	66,918,315	174,553,866	328,615,194	1,031,842,021	647,574,719	726,960,580	949,382,097	1,515,754,463	1,704,094,012
PAT ₦'000	637,473	501,515	737,149	6,083,439	16,056,464	22,885,794	12,931,441	5,248,866	35,815,611	26,211,844
DIAMOND BANK										
Board Size	14	14	14	14	14	16	16	16	16	16
Board Comp	7	6	6	7	7	6	8	8	6	6
Assets ₦'000	69,114,931	124,994,957	223,047,862	312,249,721	647,551,701	602,041,711	542,098,489	714,063,959	1,059,137,257	1,234,648,540
PAT ₦'000	833,498	2,526,552	3,849,545	6,930,754	6,931,127	4,883,446	6,522,455	-22,868,254	23,073,427	21,451,219
ECO BANK										
Board Size	13	13	13	15	15	15	15	15	20	12
Board Comp	7	6	6	7	7	6	8	8	6	6
Assets ₦'000	37,642,066	67,652,618	3,503,739	6,550,224	8,306,186	9,006,523	10,466,871	17,161,912	19,950,335	22,532,453
PAT ₦'000	894,439	1,668,174	86,365	138,936	111,140	64,600	131,819	206,840	286,732	147,773
WEMA BANK										
Board Size	7	7	7	7	10	10	10	10	10	10
Board Comp	3	3	4	3	6	5	3	3	5	5
Assets ₦'000	71,423,836	97,090,060	120,109,067,	165,081,532	128,906,575	142,785,723	203,144,627	222,238,550	245,704,597	330,872,475
PAT ₦'000	967,148	844,285	-6,601,961	2,554,098	-57,738,739	-2,094,692	16,238,533	-7,649,477	-5,040,629	1,596,531

Source: The Nigerian Stock Exchange Fact Book

Table 2:
SUMMARY OF RELEVANT RATIO OF THE TEN (10) SELECTED BANKS

BANKS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
FIRST BANK										
Return On Asset %	5.352	3.228	2.406	2.615	2.103	0.072	1.376	1.927	28.342	22.651
GUARANTY TRUST BANK										
Return On Asset %	3.389	3.175	2.844	2.720	3.052	2.980	3.546	3.390	5.262	4.492
UNITED BANK OF AFRICA										
Return On Asset %	2.004	1.869	1.347	1.799	2.632	0.920	0.124	-0.225	2.634	2.510
UNION BANK										
Return On Asset %	2.107	2.354	1.939	1.956	2.727	-6.420	0.302	0.423	0.442	0.558
ZENITH BANK										
Return On Asset %	2.685	2.150	1.881	1.981	2.769	1.389	1.796	1.904	3.931	2.900
FIDELITY BANK										
Return On Asset %	3.317	4.766	2.636	1.916	2.436	0.326	1.172	0.530	1.960	0.714
ACCESS BANK										
Return On Asset %	2.034	0.749	0.422	1.851	1.556	3.534	1.778	0.553	2.363	1.538
DIAMOND BANK										
Return On Asset %	1.206	2.021	1.726	2.220	1.070	0.811	1.203	-3.203	2.179	1.737
ECO BANK										
Return On Asset %	2.376	2.466	2.465	2.121	1.338	0.717	1.259	1.205	1.437	0.656
WEMA BANK										
Return On Asset %	1.354	0.870	-5.497	1.47	-44.791	-1.467	7.994	-3.442	-2.051	0.483

Source: The Nigerian Stock Exchange Fact Book

important within the governance framework.

This study attempts to bridge these gaps by extending this study beyond the framework of corporate business oriented organisations, which is based primarily on shareholder sovereignty. The study therefore analysed the level of compliance of code of corporate governance in Nigerian banks with the Central Bank of Nigeria code of corporate governance. Furthermore, while other studies on corporate governance neglected the operating performance variable as proxies for performance, this study employed the accounting operating performance variables to investigate the existence if any relationship between corporate governance and performance of banks in Nigeria.

3.0 RESEARCH METHODOLOGY

The study makes use of secondary data from annual reports of the selected banks obtained from the Nigerian Stock Exchange fact book for the year 2004 – 2013. Using the judgmental sampling technique, this study selected 10 out of the 20 listed banks that made the Nigerian banks consolidation deadline of 2005. The time frame considered for this study is 2004 to 2013. Methods of descriptive statistics, correlation analysis and regression analysis were employed in the analysis the data. The study's multiple regression models was estimated using the Statistical Package for

Social Sciences (SPSS).

Following analysis in prior studies (See: Adeusi, Akeke, Aribaba and Adebisi (2013); Akingunola, Adekunle and Adedipe (2015); Bebeji, Mohammed and Tanko (2015) and Uwuigbe (2011)), this study made use of corporate annual reports of the 20 listed banks in Nigeria to find out the relationship that exist between corporate governance variables and performance. The research adopts the random effect model of the panel data regression analysis in analysing the impact of the corporate governance proxies on the performance of the listed banks. The Pearson correlation was used to measure the degree of association between variables under consideration and the t-test statistics was computed using the profitability of the healthy banks and the rescued banks to find out if there is any statistically significant difference between the profitability of the two groups.

3.1 MODEL SPECIFICATION

Using the multiple regression analysis, the model adopted by the researcher to carry out the analysis is as follows:

$$Y = f(\text{BSIZE}, \text{BCOM})$$

Where;

BSIZE = Board Size

BCOM = Board Composition

Specifying it in econometric form:

Y = α + β₁ BSIZE + β₂ BCOM + E

Where;

α = Intercept

BSIZE = Impact of Board Size

BCOM = Impact of Board Composition

β₁ - β₂ = Coefficient of BSIZE, BCOM respectively

E = Error term.

Also, the following formula was used:

ROA = PAT / Total Asset x 100 / 1

Where;

ROA = Return on Asset

PAT = Profit after Tax

4.0 DATA PRESENTATION AND ANALYSIS

The data relating to each of the statistical hypotheses of the study were presented and analysed together to enable test of the hypotheses and inferences to be drawn. The following data presented in Table 1 are from the annual reports published in the Nigerian Stock Exchange fact books.

4.1 ANALYSIS OF DATA

Various ratios necessary for the analysis are presented in Table 2.

4.3 TEST OF HYPOTHESES

In pursuit of the research objectives, the following hypotheses are tested:

- Ho₁: There is no significant relationship between board size and the return on assets of banks in Nigeria.
- Ho₂: There is no significant relationship between the relative size of non-executive directors and the return on assets of banks in Nigeria.

Y = 0.0164101 - 0.00375281 β₁ + 0.0196924 β₂

F-stats (0.058) < f-tab (5.32)..... Board Size and Number of Non-Executive Directors.

HYPOTHESIS ONE

Ho : There is no significant relationship between Board Size and the Return on Assets (ROA).

Hi : There is significant relationship between Board Size and the Return on Assets (ROA).

DECISION: Accept the null hypothesis (Ho) if the F- value is not significant and reject the null hypothesis if it is significant.

Table 3: Test of Hypotheses

Model 1: Pooled OLS, using 100 observations

Included 10 cross-sectional units

Time-series length = 10

Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value
Const	0.0164101	0.0540881	0.3034	0.76224
Board Size	-0.00375281	0.0204172	-0.1838	0.85455
Board Composition	0.0196924	0.0615462	0.3200	0.74969

Mean dependent var	0.016847		S.D. dependent var	0.060814
Sum squared resid	0.365700		S.E. of regression	0.061401
R-squared	0.001188		Adjusted R-squared	-0.019406
F(2, 97)	0.057675		P-value(F)	0.943989
Log-likelihood	138.6617		Akaike criterion	-271.3235
Schwarz criterion	-263.5080		Hannan-Quinn	-268.1604
Rho	0.202493		Durbin-Watson	1.468800

Durbin-Watson statistic = 1.4688

P-value = 0.0356804

Source: OLS

Significant level is at 0.05

The results above show that Board Size has a negative but significant impact on Return on Assets (ROA). The coefficient of regression being -0.00375281 at a probability 0.85 enviably explains that size of Board of Directors contribute negatively to the Return on Assets (ROA). The F-test was used in testing for the significant relationship between the independent and dependent variables which F-value is 0.058. Since this is higher than 5% (0.05) it is therefore significant. The null hypothesis stating that there is no significant relationship between Board Size, and the Return on Assets (ROA) is therefore rejected.

HYPOTHESIS TWO

Ho: there is no significant relationship between the relative size of Non-Executive Directors and the Return on Assets (ROA)

Hi: there is significant relationship between the relative size of Non-Executive Directors and the Return on Assets (ROA)

DECISION: Accept the null hypothesis (Ho) if the F- value is not significant and reject the null hypothesis if it is significant.

Significant level is at 0.05

The results above show that the relative size of Non-Executive Directors has a positive and significant impact on the Return on Assets (ROA) of bank. The coefficient of regression being 0.0196924 at a probability 0.76 explains that the relative size of Non-Executive Directors contribute positively to the growth of the ROA. The F-test was used in testing for the significant relationship between the independent and dependent variables

which F-value is 0.058. Since this is higher than 5% (0.05) it is therefore significant. The null hypothesis stating that there is no significant relationship between the relative size of Non-Executive Directors and the Return on Assets (ROA) is therefore rejected.

4.4 DISCUSSION OF FINDINGS

The results above shows that Board Size has a negative but significant impact on Return on Assets (ROA) and that the relative size of Non-Executive Directors have a positive impact on the Return on Assets (ROA) of bank. The coefficient of regression being -0.00375281 & 0.0196924 respectively at a probability 0.85 and 0.76, it enviably explains that size of Board of Directors contribute negatively to the Return on Assets (ROA) while on the other side the relative size of Non-Executive Directors contribute positively to the growth of the ROA.

The F-test was used in testing for the significant relationship between the independent and dependent variables which is the Board size and the relative size of Non-Executive Directors as to the Return on Assets (ROA) which F-value is 0.058. Since this is higher than 5% (0.05) it is therefore significant. The coefficient of (R^2) stand at 0.001188 and the P-value (F) stand at 0.943989 which indicates that about 94% of the total variation is accounted for by the independent variable. The significant levels show that the independent variable is contributing to the variation in the dependent variable. The null hypotheses stating that there are no significant relationships between Board Size, the relative size of Non-Executive Directors and the Return on Assets (ROA) are therefore rejected.

4.5 POLICY IMPLICATIONS OF FINDINGS

The first hypothesis reveals that the Board Size has a negative but significance impact on the banking performance. This is practically seen in banks where a large board size leads to slower and less-efficient decision-making processes. This causes communication problems and hence negatively affects the banks' performance. This finding suggests that a smaller board size can enhance banks' performance as the smaller size can take quick and adequate decision for the performance of the banks as large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change. The negative but significant relationship found between bigger board size and ROA is consistent with the conclusions drawn by Uwuigbe (2011), and Ajala, Amuda and Arulogun (2012). Their study revealed that a negative but significant relationship exists between board size and the financial performance of banks. They argue that a large board size leads to the free rider problem where most of the board members play a passive role in monitoring the firm.

This result however, differs from Kyereboah-Coleman and Biekpe (2006) who concluded with a positive relationship between a firm's performance and board size. They argued that a large board size brings in more management skills and professionalism therefore making it very difficult for the CEO to manipulate the board.

The second hypothesis reveals that the relative size of Non-Executive Directors has a positive and significant impact on banking performance. This suggests that banks with higher presence of non-executives or independent members in their

boards perform better than the others banks. This is correct because non-executive directors have the incentive to act as monitors of management because they want to protect their reputations as effective, independent decision makers. The non-executive directors encourage more intensive audits as a complement to their own monitoring role while aiding reduction in agency costs which leads to improved performance. Our findings are further buttressed by Bebeji, Mohammed and Tanko (2015) who found a positive and significant relationship between the relative size of non-executive directors and banks financial performance.

However, our findings disagree with that of Pi and Timme (1993) and Uwuigbe (2011) who found a negative but significant relationship between the tested variables they concluded that non-executive directors are likely not to have a hands-on approach or are not necessarily well versed in the operations of the institution, hence do not necessarily make the best decisions.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study is on the effect of Corporate Governance on financial performance of commercial banks in Nigeria. The specific objectives of the study were to assess the impact of board size and board composition on financial performance of the Nigerian commercial banks. The analysis reveals that the Board Size has a negative but significance impact on the banking performance. This finding suggests that a smaller board size can enhance banks' performance as the smaller size can take quick and adequate decision for the performance of the banks as large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change. Furthermore, the study reveals that the relative size of Non-Executive Directors has a positive and significant impact on banking performance. This suggests that banks with higher presence of non-executives or independent members in their boards perform better than the others banks.

5.1 CONCLUSION

This study focused on finding out the triggers of performance of the banking sector of which Corporate Governance proved to be an important issue for many commercial banks. It has been established in selected literatures that corporate governance affects stakeholders and the banks as a whole, corporate governance affects the potential or ability of a bank to reach its market share both domestically and globally, corporate governance also determines the banks' ability to fulfill its social objectives with its clientele and society at large. This study has also established that that corporate governance practices have measurable effects on banks operational performances. The study therefore concludes that weak corporate governance structure in Nigeria contributed immensely to the recent crisis experienced in Nigerian banking sector.

5.2 RECOMMENDATIONS

Based on the discussion and conclusion above, the researcher will make bold to recommend the following:

1. Banks should engage in the development and implementation of strategic training for board members and senior bank managers. This should be carried out

with special emphasis on corporate governance, corporate governance disclosure and banking ethics. They should regulate the size of the board which should not be too large and must consist of highly skilled and competent professional who are conversant with oversight function.

2. There should also be in existence, a proper internal control structure and self-government regulation so as to detect early rule violations and also monitor systemic problems for early remediation and solutions.
3. An effective legal framework should be developed by the legislature to regulate and specify the rights and obligations of a bank, its directors, and shareholders. Also such laws and regulations should specify disclosure requirements and enhance transparency and accountability. Also, Extra care and precautions should be employed by regulatory and supervisory in the process of scrutinising the books of account of banks, also, provisions should be made for more frequent examination of the bank's operations.
4. Conclusively, the international codes of corporate governance should be properly adopted by Nigerian banks to meet the need of Nigerian governance environment.

5.3 RECOMMENDATIONS FOR FURTHER STUDY

This study empirically investigated the effect of corporate governance on Return on Asset of banks in Nigeria. The limitations of the study have prompted the researcher to recommend for further study in the following areas:

1. Literature review indicates that most studies have been carried out on very big firms or banks. Further research should be devoted to small and medium scale enterprises in Nigeria and Africa as a whole. This is because SMEs account for over 80% of the total number of enterprises found in this region of the world.
2. Further research is also required on non-financial aspects of firms and banks. Research on data comparing financial and non-financial aspects of firms or banks may most likely elicit variation in the relationship between corporate governance and the value of a firm.

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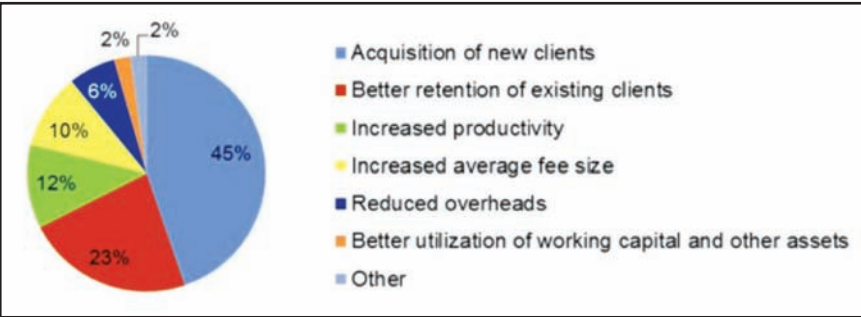
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Social Media Marketing May Be the Key to Practice Profitability

By STUART BLACK

The acquisition of new clients continues to be a dominant driver of profitability for small- and medium-sized practices (SMPs). Indeed, in the latest edition of the IFAC SMP Quick Poll, the largest portion of respondents identified acquisition of new clients as the main driver of practice profitability — by a wide margin (*see chart below*).

While SMPs understand the importance of improving operational leverage (doing more with less), improving productivity (e.g., changing work practices or introducing technology), reducing overheads, and better utilisation of assets, these are not the main drivers of profitability for most SMPs.



This is not surprising given the fact that practice overheads are relatively fixed.

The poll results seem to question the wisdom of many practice management “gurus” who say that the cost of acquiring a new client is far higher than the cost of retaining, or selling more services to, an existing client. What those “gurus” may be failing to recognise is the full potential and cost effectiveness of a marketing campaign that includes low-cost social media.

This article looks at promotion and marketing and, in particular, the role of social media in acquiring new clients and driving practice profitability.

Branding

The first step of a marketing strategy is to identify your target customers and what they need. You then have to determine how you can satisfy those needs at a profit and, at the same time, differentiate yourself from your competitors. This becomes your brand. The aim of your marketing strategy is to have people associate your brand with their needs and desires, choose you over the competition, and, if you do it right, pay a premium for your services.

Promotion and Marketing

An organic growth strategy involves leveraging promotion

and marketing activities to build brand and attract new clients or sell additional services to existing clients. Remember that most businesses in the market are likely to already have an accountant. In the majority of cases, that means for you to grow your practice you will need to win clients from rival practices. And, in order to do that, you must offer a compelling reason for them to switch. This makes promotion and marketing more important than ever — and demands that practices build the capability to proficiently promote and market their brand and service offerings. You will likely be faced with the classic “make-or-buy” dilemma, that of using (and training as needed) existing staff to do promotion and marketing, or else recruiting or outsourcing for the requisite skills.

Promotion and marketing efforts are most effective when a number of activities and channels are used simultaneously: this harnesses the momentum of such efforts and is likely to be more impactful. There are many “tried and true” strategies for marketing but the newest one, social media, has already broken the mold. Social media marketing has rapidly grown in prominence and gone from marginal to mainstream in the marketing space. Social media is a low-cost channel with a very wide reach into your target market.

Social Media Marketing

Social media essentially has taken traditional word-of-mouth marketing (historically the norm for accountants) and moved it to a digital space, exponentially increasing opportunities to influence. It is one of the most powerful tools to engage customers and drive revenue growth. But according to Steven D. Strauss, small business expert and author of *The Small Business Bible*, while small business owners recognise how important social media is to their success, they’re not taking advantage of social media’s full potential. And, chances are, the same applies to SMPs: after all, SMPs are effectively small businesses in the accountancy sector.

Getting started in social media marketing and deciding whether it can benefit your practice can be quite overwhelming — even scary, at first. Here are some steps to take when building a social media presence:

1. **Set aside preconceived notions** — social media carries risks but the rewards are greater: it will take time and expense to plan and execute but there are many tools, resources, and articles to help.
2. **Learn about the what, why, and how** — take the time to read and educate yourself about social media, including Twitter

(see *Twitter's Small Business Guide*), LinkedIn, Facebook, and blogging, and see what your peers are doing.

3. **Check out the tools and resources available to help** — there is a growing suite of tools, resources, and guidance available, for example, the AICPA PCPS has developed a number of resources, many of which are available for free, including a social media toolkit and articles.

4. **Create a strategy and action plan** — define goals, decide how you will measure success and allocate responsibility, then start out small by, for example, pilot testing one of the tools.

5. **Implement the plan** — aim to provide content that creates conversation rather than advertises and involve staff from the millennial generation as they often have the most experience.

6. **Periodically evaluate, analyse, and update the plan** — track your efforts and monitor the return on investment using common metrics including likes, shares, followers, traffic, and conversions.

7. **Consider the need for a policy** — this can help manage the risks and reap the rewards. ●

★ *Stuart Black is a member of IFAC SMP Committee.*

Surviving the Challenge of Running Your Own Business

By **PETER MANDICH**

One of the most challenging, stressful, and yet, ultimately, rewarding experiences is setting up your own business and seeing it succeed. The sense of accomplishment, and the rewards, make it an attractive proposition for the owners of 5.4 million small businesses in the United Kingdom (UK) today.

Small businesses are vital not only to the UK economy but also globally. They are the engine drivers of economies, creating jobs — more than 12 million in the UK (almost half of all private sector jobs) — and they deliver innovation and drive economic growth.

But if starting a business is a big achievement, then surviving is an even larger one. More than half of UK start-ups cease trading within five years for a variety of reasons. In the Institute of Chartered Accountants in England and Wales (ICAEW)'s *Audit Insights: Small Businesses*, auditors look at some of the barriers that need to be overcome to ease the challenge of building a sustainable, profitable business. They have focused on four key areas which reoccur with a degree of frequency.

Plan in Advance

Many small businesses plunge into the competitive arena of setting up a business without a formal business plan. Owners need to draw up a well-written business plan that conveys the unique selling point of their product or service. But this is only the start of the process.

It is essential that there are regular reviews of the plan so that any changes — such as cash flow problems, or sales and revenues not on target — are picked up quickly and corrective actions are taken. Many fail not because they are unprofitable, but because they do not manage their cash resources and find they are unable to pay their debts.

Value in IT

Small businesses need to make sure that the investment in IT represents value for money. Recognising that the internet will not be relevant to the work of some small UK businesses, for those that have ambitions to grow, it is vital they have a website

presence. But the website should be a low-cost investment while owners are growing their business. Owners will need to be clear whether they will use their website as an advertising tool, or a device that will also receive payments online, as this will be more costly at a time when cash flow will be important.

Cash Flow

Small businesses will need to manage their cash flow. They will need to build into their plans that they will experience late payment, and strengthen their relationships with their key customers so that they are in a stronger position when it comes to payment disputes.

Adapt to Pressures

Lastly, but no less importantly, is that owners need to accept that running their own business will be stressful in whatever country they operate. They will need to deal with long periods of uncertainty while managing a range of business risks. The key is to accept these pressures as inevitable and to develop the mental agility to respond positively when they do occur.

Many owners are not experienced in financial affairs such as evaluating the relative benefits and costs of capital expenditure and other long-term investments. They can understandably fail to take into account some of the variables that might sensibly be considered in financial decision making, such as the cost of finance or the time value of money more generally.

Owners who lack financial expertise should seek professional advice. The consequences of failing to get such advice could be significant financial or reputational damage. The report also found that the ability of small businesses to take risks is disproportionately affected by government regulation, which increases their compliance costs and acts as a barrier to growth. The auditors' advice to governments is that in helping small business to grow, they need to be careful not to impose additional burdens that increase their costs. ●

★ *Peter Mandich is the Manager, Audit & Assurance, ICAEW.*

MENINGITIS:

Symptoms, Causes, Diagnosis & Cure

What is Meningitis?

Meningitis is an inflammation of the meninges. The meninges are the three membranes that cover the brain and spinal cord. Meningitis can occur when fluid surrounding the meninges becomes infected.

The most common causes of meningitis are viral and bacterial infections. Other causes may include:

- Cancer
- Chemical irritation
- Fungi
- Drug allergies.

Viral and bacterial meningitis are contagious. They can be transmitted by coughing, sneezing, or close contact.

Types of Meningitis

Viral and bacterial infections are the most common causes of meningitis. There are several other forms of meningitis. Examples include cryptococcal, which is caused by a fungal infection, and carcinomatous, which is cancer-related. These types are rare.

Viral Meningitis

Viral meningitis is the most common type of meningitis. Viruses in the *Enterovirus* category cause 85 percent of cases. These are more common during the summer and fall, and they include:

- Coxsackievirus A
- Coxsackievirus B
- Echoviruses

Viruses in the *Enterovirus* category cause about 10 to 15 million infections per year, but only a small percentage of people who get infected will develop meningitis.

Other viruses can cause meningitis. These include:

- *West Nile virus*
- Influenza
- Mumps
- HIV
- Measles
- Herpes viruses
- *Coltivirus*, which causes Colorado tick fever.

Viral meningitis typically goes away without treatment.

Bacterial Meningitis

Bacterial meningitis is contagious and caused by infection from certain bacteria. It's fatal if left untreated. Between 5 to 40 percent of children and 20 to 50 percent of adults with this condition die. This is true even with proper treatment.

The most common types of bacteria that cause bacterial

meningitis are:

- *Streptococcus pneumoniae*, which is typically found in the respiratory tract, sinuses, and nasal cavity and can cause what's called "pneumococcal meningitis".
- *Neisseria meningitidis*, which is spread through saliva and other respiratory fluids and causes what's called "meningococcal meningitis".
- *Haemophilus influenza*, which can cause not only meningitis but infection of the blood, inflammation of the windpipe, cellulitis, and infectious arthritis.
- *Listeria monocytogenes*, which is a foodborne bacteria.

What Are the Symptoms of Meningitis?

The symptoms of viral and bacterial meningitis can be similar in the beginning. However, bacterial meningitis symptoms are usually more severe. The symptoms also vary depending on your age.

Viral Meningitis Symptoms

Viral meningitis in infants may cause:

- Decreased appetite
- Irritability
- Sleepiness
- Lethargy
- A fever.

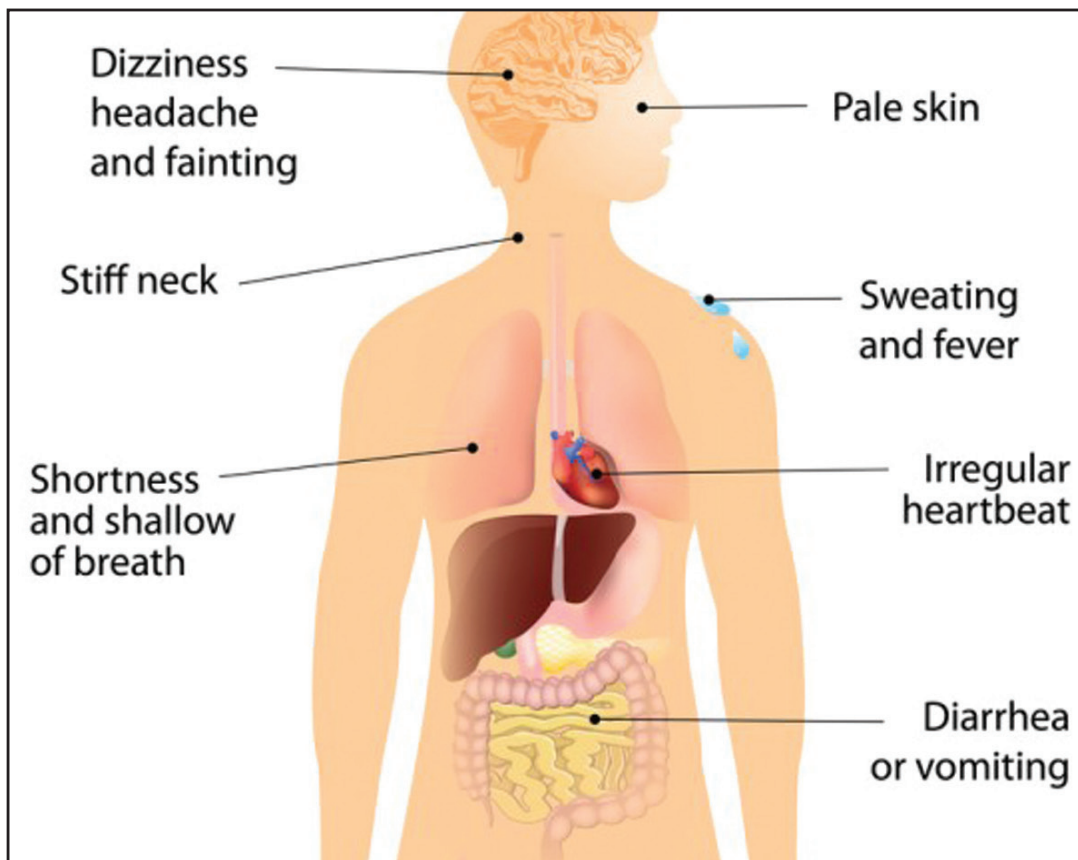
In adults, viral meningitis may cause:

- Headaches
- A fever
- Stiff neck
- Seizures
- Sensitivity to bright light
- Sleepiness
- Lethargy
- Nausea
- Decreased appetite.

Bacterial Meningitis Symptoms

Bacterial meningitis symptoms develop suddenly. They may include:

- Altered mental status
- Nausea
- Vomiting
- A sensitivity to light
- Irritability
- A headache
- A fever
- A stiff neck



Cryptococcal meningitis, which is caused by a fungus, is the most common form of meningitis in people with HIV or AIDS.

Community Living

Meningitis is easily spread when people live in close quarters. Being in small spaces increase the chance of exposure. Examples of these locations include:

- College dormitories
- Barracks
- Boarding schools
- Day care centers.

Pregnancy

Pregnant women have an increased risk of listeriosis, which is an infection caused by the *Listeria* bacteria. Infection can spread to the unborn child.

Age

All ages are at risk for meningitis. However, certain age groups have a higher

Seek immediate medical attention if you experience these symptoms. Bacterial meningitis can be deadly. There's no way to know if you have bacterial or viral meningitis just by judging how you feel. Your doctor will need to perform tests to determine which type you have.

What Are the Complications from Meningitis?

These complications are typically associated with meningitis:

- Seizures
- Hearing loss
- Brain damage
- Hydrocephalus
- A subdural effusion, or a buildup of fluid between the brain and the skull.

What Are the Risk Factors for Meningitis?

The following are some of the risk factors for meningitis:

Compromised Immunity

People with an immune deficiency are more vulnerable to infections. This includes the infections that cause meningitis. Certain disorders and treatments can weaken your immune system. These include:

- HIV
- AIDS
- Autoimmune disorders
- Chemotherapy
- Organ or bone marrow transplants.

risk. Children under the age of 5 are at increased risk of viral meningitis. Infants are at higher risk of bacterial meningitis.

Working with Animals

Farm workers and others who work with animals have an increased risk of infection with *Listeria*.

How Is Meningitis Diagnosed?

Diagnosing meningitis starts with a health history and physical exam. Age, dorm residence, and day care center attendance can be important clues.

During the physical exam, your doctor will look for:

- A fever
- An increased heart rate
- Neck stiffness
- Reduced consciousness.

Your doctor will also order a lumbar puncture. This test is also called a spinal tap. It allows your doctor to look for increased pressure in the central nervous system. It can also find inflammation or bacteria in the spinal fluid. This test can also help determine the best antibiotic for treatment.

Other tests may also be ordered to diagnose meningitis. Common tests include the following:

- Blood cultures identify bacteria in the blood. Bacteria can travel from the blood to the brain. *N. meningitidis* and *S. pneumoniae* can cause both sepsis and meningitis.
- A complete blood count with differential is a general index

of health. It checks the number of red and white blood cells in your blood. White blood cells fight infection. The count is usually elevated in meningitis.

- Chest X-rays can reveal the presence of pneumonia, tuberculosis, or fungal infections. Meningitis can occur after pneumonia.
- A CT scan of the head may show problems like a brain abscess or sinusitis. Bacteria can spread from the sinuses to the meninges.

How Is Meningitis Treated?

Your treatment is determined by the cause of your meningitis.

Bacterial meningitis requires immediate hospitalisation. Early diagnosis and treatment will prevent brain damage and death. Bacterial meningitis is treated with intravenous antibiotics. There's no specific antibiotic for bacterial meningitis. It depends on the bacteria involved.

Fungal meningitis is treated with antifungal agents.

Viral meningitis isn't treated. It usually resolves on its own. Symptoms should go away within two weeks. There are no serious long-term problems associated with viral meningitis.

How Is Meningitis Prevented?

Maintaining a healthy lifestyle, especially if you're at increased risk, is important. This includes things like:

- Getting adequate amounts of rest.
- Not smoking.
- Avoiding contact with sick people.

If you've been in close contact with one or more people who have a bacterial meningococcal infection, your doctor can give you preventive antibiotics. This will decrease your changes of developing the disease.

Vaccinations can also protect against certain types of meningitis. Vaccines that can prevent meningitis include the following:

- Haemophilus influenzae type B (Hib) vaccine.
- Pneumococcal conjugate vaccine.
- Meningococcal vaccine.

How Can I Avoid Getting Meningitis?

Who should be Vaccinated against Meningococcal Meningitis? These five groups are considered at risk and should get a meningitis vaccine:

- College freshmen who live in dorms and haven't been vaccinated.
- Adolescents who are 11 to 12 years old.
- New high school students who haven't been vaccinated.
- People traveling to countries where meningococcal disease is common.
- Children who are ages 2 or older and who don't have a spleen or have a compromised immune system. •

★ Culled from Healthline.com



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Reinventing ERM and Internal Audit: Accountants Need to Drive Radical Change

By TIM J. LEECH

The speed and magnitude of change in the world continues to accelerate. Companies that were once leaders in their sector, including Kodak, Blackberry, Sears, and Macy's, have suffered massive declines in value and sector status. Whole industries, like taxi cabs, travel, and retail, have seen massive business model shifts with the arrival of game changing players like Uber and Amazon.

Most recently, customer feedback from multiple sources is strongly signalling that Enterprise Risk Management (ERM) and internal audit need to radically change their core business models or risk similar fates. Accountants serving as board directors, CEOs, CFOs, controllers, and chief audit executives need to play lead roles driving radical change to better meet the needs of their companies and boards.



The problems with the traditional internal audit business model, a model where well-intending auditors assess a small percentage of the total risk universe each year and form subjective opinions on internal control "effectiveness", continue to grow as the needs of management, boards and other stakeholders escalate exponentially.

ERM processes, which are often an annual or semi-annual exercise to update risk registers created as a response to

regulatory compliance requirements, are now expected to help boards meet escalating demands for effective board oversight of risk processes, risk culture, and risk appetite and tolerance. Traditional risk-centric, risk-register based ERM is ill-equipped to provide a robust response to these new expectations.

What's the Solution?

The natural inclination of people faced with growing evidence that status quo methods and business models need to change radically is to propose slow and incremental changes in hopes that small tweaks will do the job. It won't. Quantum changes in status quo ERM and internal audit business models and methods, similar to those being driven by Uber and Amazon, are needed.

We believe the solution to growing dissatisfaction in ERM and internal audit products and services is a simple one, but recognise that human resistance to radical change is often daunting. We call the new approach Objective-Centric ERM and Internal Audit.

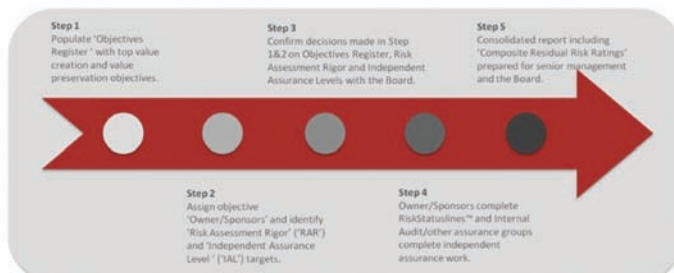
Unlike traditional approaches to internal audit and ERM, this approach focuses on populating an entity level Objectives Register with an organisation's top value creation and preservation objectives and assigning an Owner/Sponsor to each objective to report residual risk status upward. The role of ERM specialists is to build and maintain the ERM framework and help Owner/Sponsors assess and report upward to the board.

The role of internal audit is to report to senior management and the board on the reliability of the ERM framework and the residual risk status reports provided by Owner/Sponsors. Details on the approach, deficiencies of current approaches to ERM and internal audit, the business case for change, and training/reference aids are beyond the scope of this short article. They are available as free open source resources for end users on our website.

Objective-Centric ERM and Internal Audit Process Overview

Accountants around the world can, and must as true professionals, play leadership roles to drive the changes necessary to meet the assurance needs of key stakeholders and societies we live in. For organisations willing to challenge the status quo, it is possible to produce far more value from the hundreds of billions of dollars currently being spent globally on traditional ERM and internal audit. Will you help drive change? ●

★ Tim J. Leech is the Managing Director, Risk Oversight Solutions Inc.



11th Western Zonal Conference

ICAN Calls for TSA's Monitoring and Effective Implementation

The Institute of Chartered Accountants of Nigeria (ICAN) has appealed to the Federal Ministry of Finance, Treasury Department and the Central Bank of Nigeria to closely monitor the implementation of the Treasury Single Account (TSA) on daily basis to establish procedure for its effective implementation.

The Institute also called on government at all levels to champion the regeneration of core values of integrity, honesty, fairness, justice as a way of reforming the economy at all arms of government.

The appeal was made in Lagos at the end of the 11th Western Zonal Districts' Conference of the Institute held at Welcome Centre Hotel, Lagos, recently. The conference which has **"Democracy and the Crisis of Accountability in Nigeria"** as its theme was declared open by the 52nd President of the Institute, Deacon Titus Soetan.

Apart from appealing to the federal government to monitor TSA and its effective implementation, the conference also agreed that government must investigate to a logical conclusion the issue of budget padding, make the report of the investigation public and be fully implemented.

Also, the conference participants appealed to the government to put in place appropriate control on the current constituency projects which remain unimplemented, so as not to serve as veritable source of corruption. In the same way, government was advised to put in place appropriate control on the payment of allowances to members of assembly for non-existing or ghost staff and offices.

The conference also advised chartered accountants to always uphold the professional ethics of the Institute by being anti-corruption ambassadors to the country and future generations.

The participants posited that to enhance the credibility of the Institute's examination process, candidates' results should be posted on ICAN website immediately they are approved by the Governing Council of the Institute. Also, the Institute was advised to introduce into its syllabus the teaching and examining of Treasury Single Account and restore the Technology Competence Initiative (TCI) in order to enhance and sustain members' professional competency.



Cross-section of Participants at the conference

Earlier in his opening speech, the 52nd ICAN President explained that the rationale for the choice of the theme was not farfetched. He posited that after 19 years of democracy in Nigeria, the nation is still battling some challenges, which are not for lack of human and natural resources, but due to the lack of commitment leaders to the ideals of integrity, transparency, honesty, accountability and public good.

"These virtues have, over the years, influenced the historical development of the revered Accountancy Profession of which the Institute of Chartered Accountants of Nigeria (ICAN) is the flagship in this country. There exist a causal relationship between democracy and accountability which nobody can fault, yet we fail to do what we ought to do, particularly on accountability, for us as a people and a nation to connect them," he stated.

"Virtuous societies are built by leaders who are accountable and are driven by the altruistic desire to improve the lot of the highest number of the people. This is the essence of democracy and its dividends that many are yearning for. The public interest mandate, which is at the heart of governance, must be supreme. Where there is no accountability, development will inevitably be stunted. The general-will will almost inevitably be sacrificed on the altar of expediency and selfishness," he added. ●



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Impact of Corporate Governance on Firms Financial Performance:

A Study of Quoted Banks in Nigeria

By UDEH, FRANCIS NNOLI,
ABIAHU MARY-FIDELIS CHIDOZIEM
and TAMBOU, LIBERTY EJOMAFUVWE

This study evaluated the Impact of Corporate Governance on Firms Financial Performance in Nigeria Quoted Banks in order to determine the Banks Financial Performance before and after the introduction of Code of Corporate Governance in Nigeria. The main objective of this study is to evaluate Board Composition with a view to determining its impact on Firms Financial Performance. Board Composition was used as measure of Corporate Governance while Return on Capital Employed (ROCE), was used to operationalise Financial Performance. The study is anchored on Shareholders theory. The Population of this study comprised fifteen (15) banks whose shares are quoted on Nigeria Stock Exchange. Judgmental sampling technique was used to select seven (7) banks from the entire Population of the study (which makes up the sample size). Data were obtained from secondary source (published financial statements of the selected quoted banks) covering the periods of 2003 – 2014. The method of data analysis utilised was Ordinary Least Squares Regression Analysis. A model was formulated. The findings from this study showed that Board composition has a negative, though insignificant impacts on ROCE during the 2003 – 2008 period (p_1) and during the 2009 – 2014 period (p_2). In conclusion, the way in which corporate governance is organised differs among countries, depending on the economic, political and social contexts. We therefore recommend that the directors of board should adhere to CBN regulations and guidelines in bank management, with this, they can achieve their aim and shareholders confidence will be restored, on the board.

Keywords: Corporate Governance, Bank Performance and Quoted Firms.

INTRODUCTION

Corporate governance refers to the management of an entity affairs in the interest of the shareholders and other stakeholders. It is also concerned with the creation of a balance between economic and social goals and between individual and communal goals. To achieve this, there is the need to encourage efficient use of resources, accountability in the use of power, and, the alignment of the interest of the various stakeholders, such as, individuals, corporations and the society. Corporate governance is now widely accepted as being concerned with improved entity's performance. Viewed from this perspective, corporate governance is all about accountability, boards, disclosure, investor involvement and related issues. It therefore suggests that the composition of the board will determine to a larger extent,

the financial performance of an entity. This is because financial performance is a function of decision made by the directors and other arm of the corporate governance. These include Audit committee, Risk management committee and Remuneration committee to mention but a few. Based on this premise, the study intends to evaluate the extent to which Board Composition impact financial performance.

Objective of the Study

To determine the impact of Board Composition on the Return on Capital Employed (ROCE) in quoted banks in Nigeria.

Research Hypothesis

Board Composition has no significant impact on the return on capital employed.

REVIEW OF RELATED LITERATURE

Corporate Governance

The term Corporate Governance refers to the rules, processes or laws by which institutions are operated, regulated and governed. It is developed with the primary purpose of promoting a transparent and efficient banking system that will engender the rule of law and encourage division of responsibilities in a professional and objective manner. Effective corporate governance practices provides a structure that works for the benefit of stakeholders by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as formal laws (CBN, 2014). In the context of this research, it refers to rules and regulations that guide the operations of banks. Accordingly, the aim of corporate governance centers at ensuring that organisations are managed in the best interest of investors and other stakeholders.

Board Composition

Board composition refers to the number of independent non-executive directors on the board relative to the total number of directors. An independent non-executive director is defined as an independent director who has no affiliation with the firm except for their directorship (Clifford & Evans, 1997). There is an apparent presumption that boards with significant outside directors will make different and perhaps better decisions than boards dominated by insiders. Fama & Jensen, 1983 (as cited in Bansal & Sharma, 2016) suggest that non-executive directors can play an important role in the effective resolution of agency problems and their presence on the board can lead to more effective decision-making, hence improved firm performance. Bocean, 2001 (as cited in Mirza & Javed, 2013), gave five principles of corporate governance:

- i. Protection of shareholders’ rights.
- ii. Equitable treatment of shareholders .
- iii. Protection of stakeholders’ rights.
- iv. Proper disclosure and transparency.
- v. Fulfillment of responsibilities by board.

Board Size

Board size refers to the number of people on the board- executive or non- executive directors. The Central Bank of Nigeria’s Code of Corporate Governance for Banks and Discount Houses in Nigeria (2014) recommends that the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors. This is considered to be a crucial characteristic of the board structure. Large boards could provide the diversity that would help companies to secure critical resources and reduce environmental uncertainties. Olayinka (2010) opines that this positively affects performance by reducing high earnings management, restatements and fraud. Fama & Jensen, 1983 (as cited in Bandsal & Sharma, 2016) argue that the increase in the number of the members of the board slows down the decision-making processes of the firm, causing the board to pass off the problems, thus, leading to a decrease in firm value and effectiveness. Lipton and Lorsch (1992) suggested that as size of the board grows, the decision-making processes will slow down



Source: Adapted from George and Karibo, 2014

and this will cause communication problems and impacts the firm’s performance negatively.

Board Size and Composition as Prescribed by CBN, 2014

- a. The size of the Board of any bank or discount house shall be limited to a minimum of five (5) and a maximum of twenty (20).
- b. Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
- c. The Board shall consist of Executive and Non-Executive Directors. The number of Non-Executive Directors shall be more than that of Executive Directors.
- d. The Board of banks shall have at least two (2) Non-Executive Directors as Independent Directors while that of discount houses shall have at least one (1) as defined in the CBN guidelines on the Appointment of Independent Directors

Firm Financial Performance

Firm Financial Performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. George and Karibo (2014) defined it as the success in meeting pre-defined objectives, targets and goal within a specified time target. Some of the aspects that must be considered when attempting to define

performance are: time frame and its reference point. It is possible to differentiate between past and future performance. And it has been shown that past superior performance does not guarantee that it will remain superior in the future (Santos & Brito, 2012).

Aspects of Firm Performance

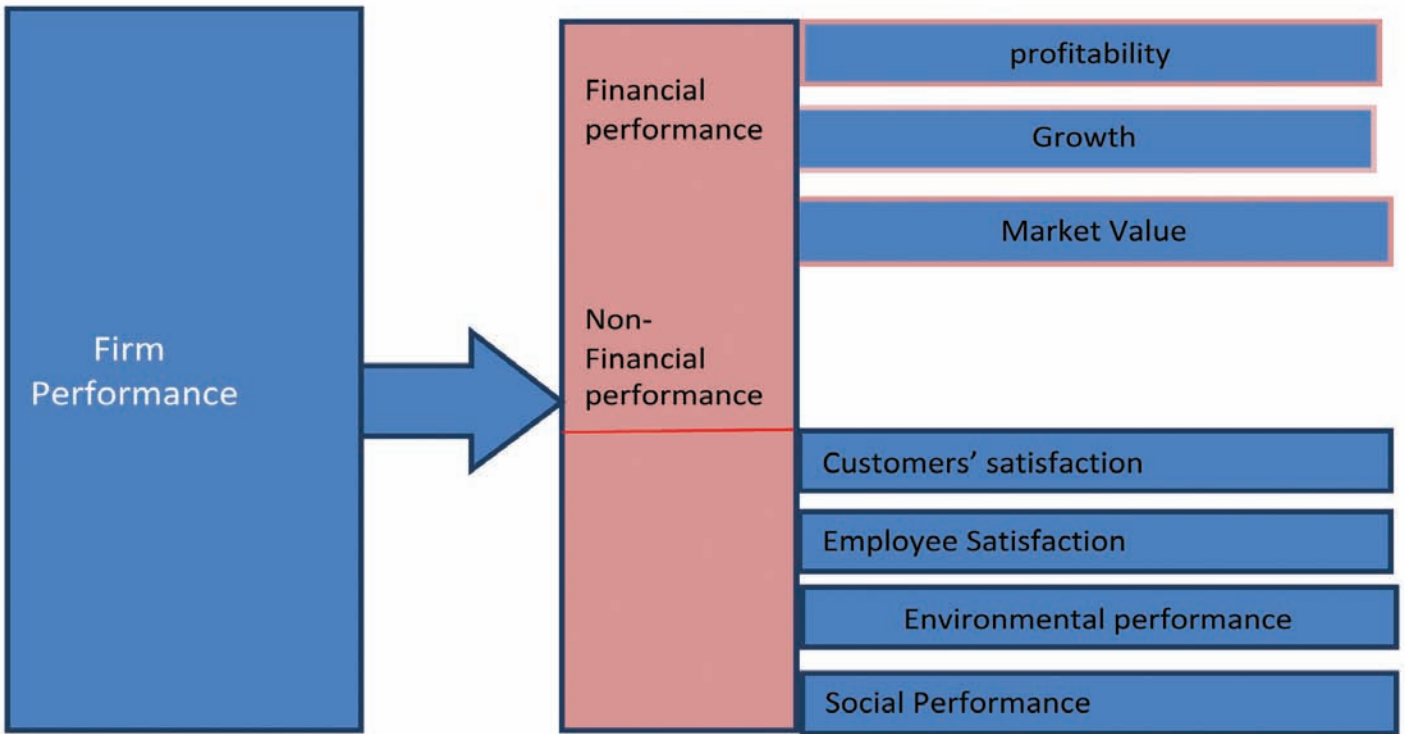
Santos and Brito (2012) identified the Superior financial performance, which can be represented by profitability, growth and market value, underpins corporate governance practice in organisations. Profitability is a measure of a firm’s past ability to generate returns while growth demonstrates a firm’s past ability to increase its size. Increasing size, even at the same profitability level, will increase its absolute profit and cash generation. This, according to thier research, goes to show that larger firm size can bring economies of scale and market power; leading to enhanced future profitability. Market value, on the other hand, represents the external assessment and expectation of firms’ future performance, which must have a correlation with historical profitability and growth levels, while incorporating future expectations of market changes and competitive moves.

The non-financial performance facets are: Customers’ Satisfaction, Employees’ Satisfaction, Environmental Performance and Social Performance. But the study focus on Financial Performance aspect (profitability). This is shown below:

Return on Capital Employed (R.O.C.E)

ROCE is one of the several profitability ratios used to evaluate a company’s performance. It is designed to show how efficiently

Firm Performance Multi-dimensional Model



Source: Field Research (2016)

a company makes use of its available capital, by looking at the net profit generated in relation to every amount of capital utilised by the company. This ratio does not concern itself with external investment or the earnings from such investment. It seeks to ascertain the level of profit made by the firm as a going concern. It is expressed as:

$$\frac{\text{Profit before interest and taxes} - \text{Income from external investment}}{\text{Share Capital} + \text{debt} + \text{Reserve} - \text{External investment}}$$

THEORETICAL FRAMEWORK

Experts in corporate governance have identified the Agency theory, stakeholder's theory and Shareholders theory as the three prominent theories of corporate governance, which are briefly discussed below.

Agency Theory

According to Egbunike and Abiahu (2017, p.27), "Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management)". The advent of Modern Corporation created a separation between ownership and control of wealth (Berle & Means, 1932). This is because as firms grow beyond the means of a single owner, who may be incapable of meeting the rapidly increasing obligations of the firm, there is the tendency that the ownership structure of the business will grow also with the attraction of new investors. As the firm continues to grow, the owners of the enterprise employ some professional executives to help them run the enterprise efficiently on a day to day basis. This arrangement creates a relationship in which the owners of the business become the principals and the executives, whom they contracted to help manage their firms, the agents.

Agency theory argues that as firms grow in size the shareholders (principals) lose effective control, leaving professional managers (agents), have more information than principals to manage the affairs of the business. Often times, this transfer of firm's control from principals to agents, creates a moral hazard which results in a situation where, to maximise their own wealth; agents may face the dilemma of acting against the interests of their principals. Since principals do not have access to all available information at the time a decision is being made by an agent, they are unable to determine whether the agent's actions are in the best interest of the firm (Jensen and Meckling (1976) cited in Egbunike and Abiahu (2017)).

When the interests and utility functions of the self-serving agents coincide with those of the principals, agency problem will not exist. However, when there is divergence, agency costs are incurred by the principals because the agents will want to maximise their own utility at the expense of the principals.

Stakeholders' Theory

The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory, the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu, 2005). The stakeholders' theory provides that

the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. (Aminu, Aisha & Mohammad, 2015). The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponent of the stakeholders' theory suggested a re-structuring of the theoretical perspectives that extends beyond the owner-manager-employee position and recognises the numerous interest groups. Freeman, Wicks & Parmar (2004), suggested that: "If organisations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organisations purpose".

Shareholders Theory

Shareholder value theory is the dominant economic theory in use by business. Maximising shareholder wealth as the purpose of the firm is established in our laws, economic and financial theory, management practices, and language. Business schools hold shareholder value theory as a central tenet. Nobel Laureate Milton Friedman (1970) strongly argues in favor of maximising financial return for shareholders. His capitalistic perspective clearly considers the firm as owned by and operated for the benefit of the shareholders. He says 'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. Friedman's statements reflect three fundamental assumptions that lend support to the shareholder view of the firm. The first is that the human, social, and environmental costs of doing business should be internalised only to the extent required by law. All other costs should be externalised. The second is that self-interest as the prime human motivator. As such, people and organisations should and will act rationally in their own self-interest to maximise efficiency and value for society. The third is that the firm is fundamentally a nexus of contracts with primacy going to those contracts that have the greatest impact on the profitability of the firm.

Having reviewed the above theories, this study is anchored on shareholders theory, because the goal of the firm is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud in order to maximise shareholders wealth. The Board of directors is accountable and responsible for the performance and affairs of the bank. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 2004, directors owe the bank the duty of care and loyalty and to act in the interest of the bank's employees and other stakeholders

EMPIRICAL REVIEW

Olayinka, (2010) investigated the Impact of Board Structure on Corporate Financial Performance in Nigeria. This study examines the impact of board structure on corporate financial performance in Nigeria. It investigates the composition of boards of directors in

Nigerian firms and analyses whether board structure has an impact on financial performance, as measured by return on equity (ROE) and return on capital employed (ROCE). Based on the extensive literature, four board characteristics (board composition, board size, board ownership and CEO duality) have been identified as possibly having an impact on corporate financial performance and these characteristics are set as the independent variables. The Ordinary Least Squares (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Findings from the study showed that there is strong positive association between board size and corporate financial performance. Evidence also exists that there is a positive association between outside directors sitting on the board and corporate financial performance. However, a negative association was observed between directors’ stockholding and firm financial performance measures. In addition, the study reveals a negative association between ROE and CEO duality, while a strong positive association was observed between ROCE and CEO duality.

In another study, carried out by Akingunola, Adekunle and Adedipe (2013) on Corporate Governance and Bank’s Performance in Nigeria (Post – Bank’s Consolidation), they considered estimated models. Binary probit was adopted to test the covariance matrix computed on structured questionnaire to bank’s clients and it was discovered that the variables such as independence, reliance, and fairness helps in the effective performance of banks but the major significant ones in this consolidation period are accountability and transparency of bank’s staff. Also, least square regression analysis was adopted to convey the relationship between bank deposits and bank credit. The estimation of the developed model was found that banks total credit was positively related but not significantly determinant factors of bank’s performance, and bank deposit was found to be positively related to bank performance.

In a related research conducted by George and Karibo (2014) on *Corporate Governance Mechanisms and Financial Performance of Listed Firms in Nigeria: A Content Analysis*, the study adopted a content analytical approach to obtain data through the corporate website of the respective firms and website of the Securities and Exchange Commission. A total of 33 firms were selected for the study cutting across three sectors: Manufacturing, Financial and Oil & Gas. The result of the study showed that most of the corporate governance items were disclosed by the case study firms. The result also showed that the banking sector has the highest level of corporate governance disclosure compared to the other two sectors. The result thus indicates that the nature of control over the sector have an impact on companies’ decision to disclose online information about their corporate governance in Nigeria; and that there were no significant differences among firms with low corporate governance quotient and those with higher corporate governance in terms of their financial performance.

METHODOLOGY

Research Design

The research design adopted for this study is ex-post facto research design. The choice of this design was chosen because the researchers are reporting what is already in existence (that is published financial statements).

Population of the Study

The population of the study consist of all universal banks whose shares are quoted on the Nigeria Stock Exchange as at 31st December 2015 (which are 15, out of the 21 banks operating in the country). Therefore, the population size is 15 banks. The data for this study are limited to the financial statement of listed banks whose annual reports are available on Nigeria Stock Exchange (NSE) under the period of study (2003 – 2014). These periods are chosen base on the availability of data.

Sampling and Sampling Technique

This study employed purposive or judgmental sampling technique to select seven (7) commercial banks out of fifteen (15) banks operating currently in Nigeria. This selection is based only on banks whose shares are quoted on the floor of the Nigeria Stock Exchange (NSE) and whose financial statements are available. The technique is well suited for determining the sample as it provides an equal probability of selection and as such minimises selection bias.

Source of Data

Secondary source of data was used for this research. The data were collected from financial statements of the seven (7) universal banks selected from the Nigerian Stock Exchange listing for the period of twelve (2003 – 2014) financial years.

Method of Data Analysis

The study utilised the Ordinary Least Squares Regression Analysis as the method of data analysis, having presented the descriptive statistics and the Pearson Correlation analysis.

Model Specification

The model for this study is in line with prior studies (Mansur and Ahmad, 2013, Becht, Bolton, and Olayinka, 2010) and is as specified below:

$$CG = f(ROCE, U) \quad \dots \quad (i)$$

In econometric form, the model is re-written as

$$BC = a + \beta_1 ROCE + u \quad \dots \quad (ii)$$

- where:
- CG** = Corporate Governance
 - BC** = Board Composition
 - ROCE** = Return On Capital Employed

S/N	Variable		Measurement
	ROCE	Return on Capital Employed	PBIT/NA

Source: Researcher’s Compilation (2016)

- PBIT** = Profit before interest and tax;
- PAT** = Profit after tax;
- NA** = Net Assets

Table 1:
Analysis of Data

Descriptive Statistics	BC	ROCE
Mean	0.6139	0.2646
Median	0.6000	0.1321
Maximum	0.8750	3.4803
Minimum	0.3333	-5.9472
Standard Deviation	0.1026	0.9433
Sample Variance	0.0105	0.8898
Jarque-Bera	51.5667	22.2257
Prob	0	0
Observations	84	84

BC: Board Composition; ROCE: Return on Capital Employed
Source: Researchers’ Computation using E-views 7.0

From the descriptive statistics of the variables as shown in **Table 1** above, it is observed that the mean value for board composition (BC) is 0.6139 which suggest that over 61% of the banks in the sample have their boards composed as required by the regulatory authorities while about 39% of the banks have a different composition. The standard deviation of 0.1026 indicates that the introduction of IFRS has improved the board composition as most of the banks’ boards are now well composed. The Jarque-Bera-statistic of 51.5667 and the p-value of 0.00 indicate that the series does not deviate from normality ($p < 0.05$).

Finding

Board composition has a negative, though insignificant impacts on ROCE during the 2003 – 2008 period (p_1) and during the 2009 – 2014 period (p_2), (-0.024 , -0.001 , $p_1 = 0.071 > 0.05$, & $p_2 = 0.962 > 0.05$).

Conclusion

Corporate Governance has become a popular discussion topic in developed and developing countries. The widely held view that corporate governance determines firm performance and protects the interests of shareholders has led to increasing global attention. However, the way in which corporate governance is organised differs between countries, depending on the economic, political and social contexts. This paper studies Corporate Governance variables (BC) and firms’ performance variable (ROCE)

Recommendations

We recommend that the directors of board should adhere to CBN regulations and guidelines in bank management, with this, they can achieve their aim and shareholders confidence will be restored, on the board. We also advise the companies to have more independent directors within the benchmark for the number of directors. This is supported by Baysinger and Butler (1985).

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Appendix:
Raw Data

		Corporate Governance			Firm Performance				
BANKS	YEARS	NED	ED	TD	PBT	PAT	EQUITY	TOTAL ASSET (N'000)	NET ASSET
ACCESS BANK	2014	10	6	16	46,142,422	39,941,126	274,155,786	1,981,955,730	185,836,455
	2013	9	7	16	31,365,396	26,211,844	245,181,998	1,704,094,012	182,504,814
	2012	10	6	16	37,028,147	36,353,643	1,515,754,463	1,515,754,463	179,173,173
	2011	10	6	16	12,141,462	5,248,866	185,836,455	949,382,097	175,841,532
	2010	9	7	16	17,668,584	12,931,441	182,504,814	726,960,580	172,509,891
	2009	8	8	16	23,195,706	20,614,016	179,173,173	504,539,063	169,178,250
	2008	8	7	15	28,722,828	28,296,591	175,841,532	282,117,546	165,846,609
	2007	6	6	12	8,043,165	6,083,439	28,384,891	328,615,194	162,514,968
	2006	6	6	12	1,119,449	737,149	28,893,886	174,553,866	159,183,327
	2005	6	3	9	751,033	501,515	14,071,924	169,178,250	155,851,686
	2004	3	4	7	951,750	637,473	2,702,830	165,846,609	152,520,045
	2003	3	4	7	810,639	556,573	2,365,357	161,152,318	149,188,404

DIAMOND BANK	2014	10	6	16	24,413,014	22,057,198	205,660,767	1,750,270,423	205,660,767
	2013	10	6	16	33,250,472	29,754,520	138,303,224	1,354,930,871	138,303,224
	2012	9	6	15	27,481,541	22,108,084	85,981,016	1,178,103,754	10,885,572
	2011	9	6	15	179,597,333	17,964,929	105,310,679	796,231,792	85,981,016
	2010	10	6	16	9,468,016	6,522,455	116,881,159	548,402,560	116,881,159
	2009	10	6	16	9,055,793	4,883,446	110,358,704	604,000,914	110,358,704
	2008	10	6	16	15,059,114	11,822,011	116,983,008	603,326,540	116,983,008
	2007	10	6	16	8,792,775	6,930,754	53,891,777	312,249,722	53,892,227
	2006	8	6	14	5,292,194	3,849,545	34,969,570	223,047,862	34,969,570
	2005	8	6	14	3,522,317	2,526,552	20,709,850	124,994,957	20,709,850
	2004	8	6	14	1,161,746	833,498	6,751,094	69,061,679	6,751,094
	2003	6	4	10	3,173,770	145,113	5,206,636	59,295,392	5,206,636
FIRST BANK	2014	7	1	8	5,683,000	5,683,000	278,180,000	287,770,000	27,818,000
	2013	7	1	8	70,631,000	70,631,000	308,101,000	311,811,000	308,101,000
	2012	5	1	6	(819,000)	(819,000)	269,893,000	270,977,000	269,893,000
	2011	10	9	19	52,528,000	47,462,000	373,572,000	2,463,543,000	375,572,000
	2010	10	9	19	33,537,000	32,123,000	345,922,000	1,962,444,000	345,922,000
	2009	7	5	12	46,110,000	35,074,000	351,054,000	1,667,422,000	351,054,000
	2008	7	5	12	3,802,000	30,473,000	339,847,000	1,165,461,000	339,847,000
	2007	9	7	16	22,097,000	18,355,000	77,351,000	762,881,000	77,351,000
	2006	8	7	15	19,831,000	6,053,000	60,980,000	540,129,000	60,980,000
	2005	3	6	9	15,145,000	12,184,000	44,672,000	377,496,000	44,672,000
	2004	3	6	9	14,106,000	11,096,000	38,621,000	31,249,000	38,621,000
	2003	8	7	15	13,393,000	10,323,000	25,040,000	320,578,000	25,040,000
FIDELITY BANK	2014	9	6	15	15,515,000	13,796,000	173,111,000	1,187,025,000	173,111,000
	2013	9	6	15	9,028,000	7,721,000	163,455,000	1,081,217,000	163,455,000
	2012	11	6	17	21,349,000	17,924,000	145,972,000	737,732,000	145,972,000
	2011	11	6	17	1,474,000	3,911,000	146,852,000	497,553,000	146,852,000
	2010	10	6	16	6,831,645	4,833,101	36,982,179	650,318,227	36,982,179
	2009	10	6	16	3,074,418	2,027,677	31,850,169	362,098,549	31,850,164
	2008	10	3	13	15,795,951	12,986,570	135,863,988	533,122,233	135,863,988
	2007	10	3	13	4,403,393	4,160,007	29,757,000	217,144,465	29,757,000
	2006	11	3	14	1,650,499	1,305,854	25,596,993	119,985,801	25,596,993
	2005	11	3	14	3,587,300	3,162,347	9,723,548	34,953,351	9,723,548
	2004	11	3	14	5,524,101	5,018,840	6,149,897	25,079,099	6,149,897
	2003	11	3	14	7,460,902	6,875,333	2,023,342	13,111,549	2,023,342

GTB	2014	21	6	27	110,367,851	93,431,604	369,530,326	2,126,608,312	369,530,326
	2013	21	6	27	100,461,729	85,545,510	329,646,681	1,904,365,795	329,646,681
	2012	7	4	11	100,141,667	64,745,101	288,153,630	1,620,317,223	288,153,630
	2011	7	4	11	64,745,101	51,653,251	216,445,185	1,083,304,116	216,445,185
	2010	8	6	14	47,568,458	39,320,255	214,223,531	1,168,052,897	220,254,216
	2009	8	6	14	35,012,534	28,603,078	193,124,102	1,079,516,749	198,266,041
	2008	8	6	14	34,457,066	28,073,252	179,550,725	921,817,327	179,550,725
	2007	8	6	14	27,198,704	21,489,885	161,053,064	717,999,797	161,053,064
	2006	10	4	14	10,024,936	7,905,506	36,445,542	305,080,565	36,445,542
	2005	10	4	14	7,004,243	5,330,796	33,468,036	167,897,704	33,468,036
	2004	10	4	14	5,029,725	4,056,557	11,617,978	119,698,240	11,617,978
	2003	10	5	15	3,802,500	3,211,439	9,661,421	83,310,731	9,661,421
WEMA BANK	2014	10	7	17	3,093,940	2,372,445	43,768,649	382,562,312	43,768,649
	2013	10	7	17	1,947,308	1,596,531	41,395,151	330,872,475	41,395,151
	2012	7	5	12	(4,942,211)	(5,040,629)	(5,040,629)	221,157,042	6,268,131
	2011	7	5	12	(3,770,021)	(4,228,926)	(4,228,926)	199,348,267	10,512,746
	2010	10	4	14	12,964,108	16,238,533	14,837,275	203,144,627	14,837,276
	2009	14	7	21	(3,309,254)	(2,094,692)	(45,499,114)	142,785,723	(45,499,114)
	2008	14	7	21	(1,582,616)	(2,027,917)	(15,835,503)	112,426,819	(15,835,504)
	2007	10	7	17	1,878,698	255,409,800	251,827,500	165,081,532	251,827,050
	2006	10	7	17	(7,200,230)	660,196,100	205,400,100	120,109,067	205,400,010
	2005	5	4	9	1,016,230	844,285,000	242,588,600	97,909,060	242,588,600
	2004	5	4	9	1,420,019	967,148,000	804,034,800	71,423,836	804,034,800
	2003	9	4	13	2,286,027	144,777,500	721,539,300	61,323,432	72,153,930
UBA	2014	6	5	11	42,378,000	40,083,000	40,083,000	2,338,858,000	281,933,000
	2013	6	5	11	51,841,000	46,483,000	46,483,000	2,217,417,000	259,538,000
	2012	10	7	17	46,180,000	47,375,000	220,317,000	1,933,065,000	220,317,000
	2011	10	7	17	(26,468,000)	(7,966,000)	187,356,000	1,440,724,000	187,356,000
	2010	10	7	17	3,693,000	2,167,000	187,730,000	1,432,632,000	187,730,000
	2009	10	7	17	15,964,000	12,889,000	187,719,000	1,400,879,000	187,719,000
	2008	10	5	15	54,637,000	40,002,000	188,155,000	1,520,093,000	188,155,000
	2007	10	5	15	28,615,000	19,831,000	164,821,000	1,102,348,000	164,821,000
	2006	8	7	15	12,514,000	11,469,000	47,621,000	851,241,000	47,621,000
	2005	8	7	15	6,239,000	4,653,000	17,702,000	248,928,000	19,378,000
	2004	10	14	24	5,608,000	4,185,000	18,059,000	208,806,000	21,444,000
	2003	10	5	15	4,977,000	3,717,000	18,416,000	168,684,000	23,510,000

Insights into Integrated Reporting

By YEN-PEI CHEN

Integrated reporting promotes more sustainable investment and management by encouraging companies to report on how they create value in a broader sense. From 2018, the International Integrated Reporting Council (IIRC) plans for the International Framework to enter its “global adoption phase,” aiming to firmly position it at the center of corporate governance and reporting.

At this crucial juncture, a new research report was published that takes a practical look at how organisations implement integrated reporting. It asks the question: How are the concepts of integrated reporting and integrated thinking getting through to those preparing company reports?

Insights into Integrated Reporting: Challenges and Best Practice Responses draws on findings from a review of 41 corporate reports (for accounting periods ended on or before March 31, 2016) produced by organisations in the IIRC’s Business Network. These observations are then supplemented with interviews with nine integrated reporters around the world at different stages of integrated reporting implementation.

The report finds that implementing integrated reporting can be challenging, and requires commitment from the very top of adopting organisations. Barriers can include difficulties in aligning key stakeholders and senior management behind integrated reporting, finding sufficient dedicated resources, addressing concerns about the legal liability of directors in relation to future-orientated discussion, and overcoming prescriptive regulatory requirements.

However, those who have undertaken the challenge have reaped real benefits: improved management information, better stakeholder relationships, more efficient reporting processes, and increased employee engagement.

Business Network participants are making good progress in applying some aspects of the Framework within their integrated reports. For example, 71% provided insight into the organisation’s strategy, with 64% specifically highlighting what differentiates them to give them a competitive edge. The vast majority of companies reviewed (88%) included information on the range of capitals used or affected by the organisation, with 63% thought to have communicated well across the capitals that were material to them. Two-thirds of the reports explained at a high level how the organisation creates value for itself and others.

However, there are a number of areas where reporting can be improved. In each of these areas, the researchers interviewed prepare to understand specific reporting challenges and to identify best practice.

Priority Areas for Improvement

• Value creation

Challenge: Many reports included good discussions in relation to each integrated reporting content element, but over half fail to

link the content elements to value creation. Organisations often struggle to identify what their stakeholders perceive as “value.” Further, many seasoned preparers are still on a quest to find the most effective way of articulating how non-financial value is created or destroyed — qualitatively or quantitatively.

Good practice ideas: Implementing a robust stakeholder engagement process, and referring to existing frameworks and sector-based guidance on non-financial reporting, can all help.

• Connectivity

Challenge: Reviewers found almost half of the reports reviewed could do better at showing the connectivity of information. Companies identified this as one of the biggest challenges with implementing integrated reporting — it required breaking down silos within the organisation and changing existing data collection processes.

Good practice ideas: Web-links and cross-references can be used effectively to direct readers to connected information within the integrated report and elsewhere, including online reports. Some are also working to join up management information, boardroom discussions, and priority topics relevant for investors and other stakeholders.

• Materiality

Challenge: Only 46% of the reports reviewed were found to have explained the materiality determination clearly. Many organisations did not use the value creation lens in determining materiality, but instead applied the Global Reporting Initiative model. Preparers found it challenging to reconcile the needs of different stakeholders.

Good practice ideas: Identifying the primary audience of the integrated report from the outset would help. Whatever materiality determination approach is adopted, the integrated report will be more credible if it explains how material matters are evaluated and prioritised.

• Conciseness

Challenge: Nearly half of the integrated reports reviewed ran over 150 pages. Preparers are finding it difficult to reconcile conciseness and meaningful communication with stakeholders.

Good practice ideas: Seasoned preparers apply robust materiality determination process to filter out matters that are not material to value creation. Cross-references to supplementary information outside of the report, including online, can help address wider stakeholder information needs.

• Reliability and completeness

Challenge: Only 51% of the reports reviewed were judged to achieve a balance in reporting positive and negative material

matters. Preparers need to know what “good” looks like in order to implement appropriate internal control processes and engage external assurance.

Good practice ideas: Board oversight and sound internal controls over reporting content are key. Identifying the applicable reporting standards and frameworks, and explaining why particular Key Performance Indicators are used, will help enhance the report’s credibility.

● **Consistency and comparability**

Challenge: For 12 out of 41 reports reviewed, the reviewers were unable to assess consistency and comparability because no basis for comparison was provided. The comparatives provided were often inconsistent, and few reports gave bases for comparison with other organisations. Most preparers prioritised internal consistency over allowing for comparisons with other companies.

Good practice ideas: Experienced integrated reporters review new performance measures rigorously before using them to ensure that they can be applied meaningfully from one year to the next. Prior year comparatives should be disclosed whenever they are available. Further, reviewing the reports of comparable organisations can yield inspiration for relevant measures.

Quick Wins

Integrate reporting is a long evolutionary process, and even the most mature reporters are still seeking improvements year on year. However, seasoned integrated reporters offer the following advice for quick wins:

- 1. **Identify integrated reporting champions** who can bring the project to life in the company. The CEO and CFO need to be committed as well.
- 2. **Take a multidisciplinary approach:** Committed individuals

from across the business can help to break down silos and encourage integrated thinking.

- 3. **Clarify the audience:** whether the focus is on shareholders, potential investors, or wider stakeholders explain who is being addressed and why.
- 4. **Determine materiality:** decide which topics are most relevant to the audience. Explaining materiality decisions gives credibility and accountability.
- 5. **Activate the data** by bringing numbers to the fore. Companies should provide targets and carry on disclosing them even if they are missed.
- 6. **Use appropriate language,** avoiding technical and organisational jargon.
- 7. **Demonstrate board commitment,** perhaps by the CEO discussing what he or she hopes to achieve with integrated reporting.
- 8. **Set expectations** by being clear that the integrated report will evolve over time.

Integrated reporting is about much more than reporting — it’s also about integrated thinking across organisations.

Nevertheless, integrated reports need to be of high quality if financial capital providers and other stakeholders are to value them. Our interviews with participating companies have found passionate support for the aims of integrated reporting and a strong belief in the benefits it can bring.

The interviewees have found many challenges in the process of applying the Framework, but see this as a long-term journey toward better reporting and the creation of value by their businesses over time. It is hoped that more organisations will be encouraged to begin their own integrated reporting journey, drawing on the insights and advice shared by the companies leading the way. ●

★ *Yen-Pei Chen is a Corporate Reporting and Tax Manager.*

IFRS 17 – INSURANCE CONTRACT

IASB on May 2017 released **IFRS 17 – Insurance Contract** to replace IFRS 4. The reason for the new standard is to promote a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts than an insurer holds. This is to enhance comparability of financial reporting among entities, jurisdictions and capital markets.

The standard creates one model for all insurance contracts in all IFRS jurisdictions, aiming to provide transparent reporting about a company’s financial position and risk. Unlike the existing standard where insurance contracts are accounted for differently across jurisdiction even within the same company.

Under IFRS 17, contracts are to be measured using current value:

- Value of investment portfolio will now be measured based only on the obligation created by these contracts.
- Provide consistent information about components of current and future profits from.

Major differences

Existing Issues	New Accounting model
Variety of accounting treatments	Consistent accounting
Estimates not updated	Estimates reflect current information
Discount rate based on investment	Discount rate reflects cash flows of the contract
Lack of discounting	Measurement reflects discounting where significant
Little information about options and guarantees	Measurement reflects full range of possible outcomes

The effective date for IFRS 17 is January 01, 2021, early adoption is however permitted.



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